

**NEW CHALLENGES AND
PERSPECTIVES OF CHINA**

WHERE IS CHINA GOING?



FOREIGN LANGUAGES PRESS

WHERE IS CHINA GOING?

The essays contained in this book are the result of a great deal of contemporary research, commentary, and intelligent speculation as to how China's rise can serve its people, be a catalyst for domestic and international growth, and generate a prosperous and stable way of life.

Robert Lawrence Kuhn

International Corporate and Strategist Investment Banker

Author of "The Man Who Changed China: The Life and Legacy of Jiang Zemin"

Though China's political reforms are still inadequate, they embody some political wisdom by at least reducing the tremendous social risks that might be entailed by a drastic, sweeping political reform, which has been the root of the collapse of some countries' political and economic systems.

Zhang Weiwei

Professor of International Relations and Senior Research Fellow at

the Center for Asian Studies at the University of Geneva

It is necessary to look to the future of the world and the opportunities available to China to grasp world trends and develop its own policy formulation and strategic adjustments.

Jin Canrong

Professor and Deputy Dean of the School of International Studies at Renmin University

The 12th Five-Year Program period is a historic period on China's road of development. Its basic task is to lay a solid foundation for building a moderately prosperous society in all aspects by 2020. All the Chinese people are really fortunate to live in such a brilliant era.

Hu An'gang

Professor and Doctoral Supervisor in the School of Public Policy and

Management of Tsinghua University

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WHERE IS CHINA GOING?

New Challenges and Perspectives of China

by Zhang Weiwei and others



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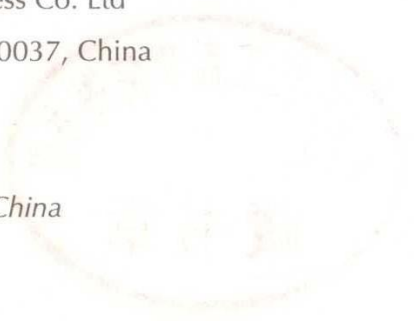
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Preface

Although I have come to spend a good deal of my time in China, immersed in China-related activities and communicating about China in the international media, I am not a China scholar. My doctorate is in brain science; I am a corporate strategist; I work in investment banking; I advise companies and countries; I write on diverse subjects; and I produce and present *Closer to Truth*, a television series in the United States on science and philosophy.

Whether through the benevolent vicissitudes of life, or the mysterious wisdom of fate, for over two decades I have been coming to China—now more than 100 times—visiting over 25 provinces and 50 cities. For fifteen years I have been writing books and articles about China, and producing television programs on China, all based on my firsthand interviews, intimate discussions, and personal observations, especially with Chinese leaders in all sectors. My scholarship has been experiential and phenomenological as well as analytical and scientific.

I have learned to appreciate the significance of Chinese political philosophy, including the semiotics of slogans, such as President Hu Jintao's Scientific Outlook on Development (Kexue Fazhan Guan), and former President Jiang Zemin's "Three Represents" (San Ge Daibiao). Such slogans can be deep probes of social context, economic conditions, and political development, and, occasionally, signs of political conflict. Such slogans can also reveal the dominant thinking of preeminent leadership and direct real-world policies, driving the practical behaviors of leaders and officials.

Foreigners, especially those who set opinions or make decisions about China (in business or government), should understand the way of thinking of China's leaders and how they think, not only what they say and what they do. For example, a senior leader was explaining a portion of the leadership's framework for the 5th Plenary of the 17th CPC Congress (2010), and he did so by categorizing three kinds of "change" as follows: things that have changed; things that have not changed; and things that will never change:

Things that have changed: Reform and opening up; the dramatic improvement in the standard of living of people's lives; the increasing personal and social freedoms in society; China's international stance of cooperation and engagement.

Things that have not changed: China is still in the "primary stage of socialism" (still with a very low GDP per capita); China still has conflicts and contradictions, such as those between the legitimate demands

of the people and the underdeveloped productive capacity of the country and those in different strata of society; China still belongs to the developing world even though it has experienced enormous growth in recent years, China still has a long way to go; even with all the myriad crises in domestic and international affairs, China can continue to grow for ten to twenty more years as hundreds of millions of rural people migrate to cities and suburbs.

Things that will never change: China will continue to follow its own model, walking the road of "Socialism with Chinese Characteristics." China will learn from other countries, but will never copy outright, the political or economic systems of other countries; China will continue to promote new ways of thinking as expressed by the well-known slogans: "Seek truth from facts"; "Emancipate our minds"; and "Keep up with the times." Economic development will remain China's primary goal, because economic development is the engine that drives the achievement of all other goals (even as vital, countervailing goals are added—particularly inclusive development that must seek to rebalance an imbalanced society, sustainable development, and environmental protection—economic development will still predominate); China's continuing goals are national prosperity, social democracy, a civilized country, and a harmonious society.

The common assumption in the West is that domestic China scholars are not free. This is not correct, in that such a simplistic and anachronistic charge does not recognize the great progress that has been made.

Although there are indeed still pockets of unpleasant restrictions, the off-limits areas have shrunk significantly, and over time continue to shrink (although they do not shrink continuously at the same rate). What is without controversy is that scholars in today's China have vastly more freedoms than their predecessors had four and five decades ago, including freedoms to criticize aspects of government. We should appreciate the great progress.

The common assumption in China is that many Western China scholars, just like much of the Western media, are biased against China and conspire against China. This is not correct. Scholars, like the media, often focus more on what's wrong than on what's right, deriving intellectual satisfaction from finding faults and digging out problems. This is the nature of scholars and critics, and society can benefit from it. It is not easy or fun to learn from those who criticize you, but this is precisely what great societies do (or learn to do).

The problem with many foreign critics of China is often not so much that what they state is wrong—the problems they pound are usually real and present—but rather that they may give the impression that these problems compose the whole of the picture of China, when in reality these problems, the real and present problems, compose just part of the picture.

Constructive critics of China, those who root for China's success but are concerned enough to point out China's problems, are China's best friends and closest allies. Constructive critics of China, both domestic

and foreign, should be praised and not scorned.

The essays contained in this book are the result of a great deal of contemporary research, commentary, and intelligent speculation as to how China's rise can serve its people, be a catalyst for domestic and international growth, and generate a prosperous and stable way of life. The subject matter is one of great importance on the world stage, whether at corporate board meetings or at private dinner parties. China is a subject much on everyone's mind.

Yet it is characteristic of human beings that we tend to fear those things about which we know little. Telling the true story of China in all its richness and complexity—the severe problems along with the remarkable achievements, the current challenges along with the recent triumphs—has become essential in order for global audiences to appreciate China's re-emergence as a central player in world economics, politics and diplomacy. Western media, unfortunately, often warps the real picture of China, and even truths that are not the whole truth can be distortions. What we need to know—and what this book presents—are the steps necessary to understand China in the years ahead.

China is a distinguished civilization and country and it has become a responsible nation and power. I was proud to participate in the Shanghai Expo by creating, writing, and presenting China Central Television's (CCTV) series on Expo and the future of Shanghai, entitled, "Expo's Meaning, Shanghai's Mission." I would like to report publicly that in producing this six-part CCTV series I had total editorial freedom. In fact,

CCTV and I had only two points of minor disagreement. Such is the nature of creative collaboration and all parties were very pleased with the finished production. An abridged version of our Expo series was broadcast by Euronews, the largest television and new media news network in Europe, Russia, Africa and the Middle East, reaching 330 million households worldwide. Featured were my interviews of Shanghai Party Secretary Yu Zhengsheng and former senior Chinese diplomat Wu Jianmin.

There was great international interest in our CCTV Expo series because there is great hunger in the world for information about China. Globally, people want to understand China. This heightens our responsibility to make sure our information is accurate, even if our understandings differ. Much depends on our work.

Robert Lawrence Kuhn

Oct. 1, 2011



Zhang Weiwei

Zhang Weiwei is a professor of international relations and a senior research fellow at the Center for Asian Studies at the University of Geneva. He is also a professor at the Geneva School of Diplomacy and a former visiting scholar at Oxford University. His works include *Transforming China: Economic Reform and Its Political Implications* and *China's Shock*.

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The construction of democracy is like opening a door: it can be accomplished either by pushing or pulling. In Western culture, the tendency is to push, emphasizing the confrontation of different interests and the philosophy of competition; while in Chinese culture the tendency is to pull, stressing the coexistence and fusion of interests, and advocating the philosophy of harmony to find out how problems can be solved effectively.

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China has a history of over 3,000 years. Rooted in the profoundness of Chinese culture, the country has great capacity for coping with changes. Within only 60 years, and relying neither on war loot nor practicing colonialism, China has turned from being the world's largest poor agricultural country into its fastest-growing industrialized country.

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The level of wisdom required for winning in international competition will be tied to those who can make effective use of the structural adjustments of the next decade, resolve in a down-to-earth manner the main bottlenecks and key links that restrict fast, sound development in their own countries, and can form independent competitive advantages by relying on themselves.

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As a matter of fact, China's development road is unprecedented in world history. Since there is no path to follow, China is bound to experience numerous twists and turns as it seeks to find the best path for the future.

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The most important element of the new changes occurring in Sino-U.S. relations is certainly not mutual enmity but cooperative, rather than confrontational, competition between the two countries. This element has never been more considerable regarding China's rise and U.S. recalibration of its strategic and economic gravity over to the Asia-Pacific.

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With internal affairs high on the agenda, it is of great necessity for China to strike a flexible balance between its national interests and international responsibilities and between self-development and a win-win development strategy with other countries, and in turn to push the relations between China and the world towards peace and cooperation. This is not only to safeguard the national interests of China, but also determine whether China can provide new options to solve global problems.

China's Political Reform: The Road to Building a “Civilized” Country

The construction of democracy is like opening a door: it can be accomplished either by pushing or pulling. In Western culture, the tendency is to push, emphasizing the confrontation of different interests and the philosophy of competition; while in Chinese culture the tendency is to pull, stressing the coexistence and fusion of interests, and advocating the philosophy of harmony to find out how problems can be solved effectively.

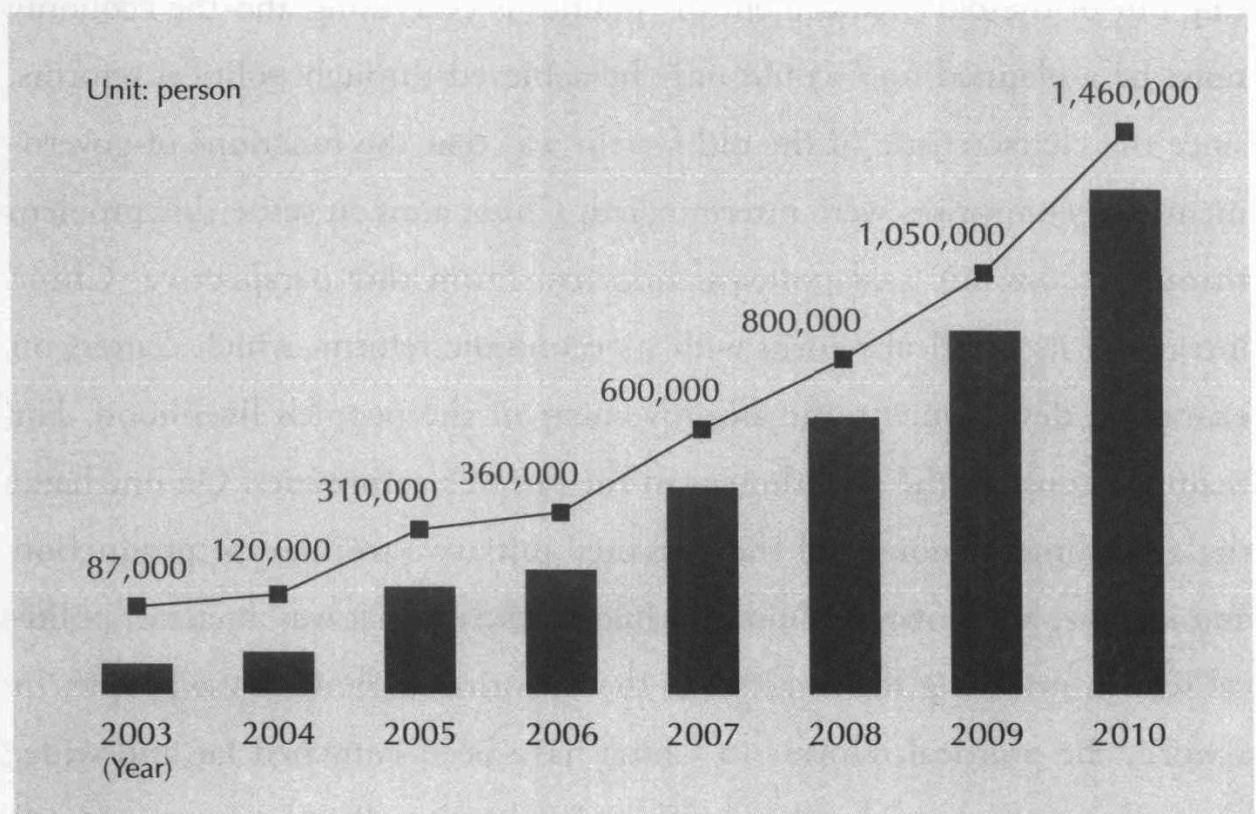
How China Can Rise Without Political Reform

We are hesitant to use the word “rise” to describe China’s rapid development for fear of panicking other countries. But, according to a Global Language Monitor report at the end of 2009, “China’s rise” was the hottest global news phrase of the past ten years, even coming in higher than 9/11 and the war in Iraq.

In fact, China has been rising astonishingly fast: since 1979 its GDP has increased eighteen-fold, making it now the second-largest economy in the world. Measured in purchasing-power, it is believed that China was already the world’s second-largest economy as far back as 1992. It overtook Germany as the largest exporter in the world in 2009. In the past 30 years, over US\$800 billion has been invested in China, making it an important engine for world economic growth. China contributed about half of global trade and economic growth in 2009. Former U.S. Treasury Secretary Lawrence Summers estimated that if the standard of living of Britain’s people doubled during that country’s Industrial Revolution, the standard of living of the Chinese people has already increased seven-fold in the course of China’s ongoing modernization process.

In May 2004 my article, “Political Reform: China Will Change in Its Own Way” was published in the *New York Times*. In that article, I stressed

that China's rapid rise is attributable to its "lesser political reforms." These reforms include the repudiation of mass ideological campaigns based on the doctrine of class struggle, so people can pursue their material lives and cultural interests. In addition, all victims under political movements have been rehabilitated, and their skills and talents have been saved for the benefit of China. Moreover, across China's vast countryside, the people's communes have been abolished, thus ending that rigid political, economic, and administrative system. Village-level elections are forging ahead in the Chinese countryside as a massive political experiment to introduce rudimentary de-



Statistics on Civil Service Exam applicants.

mocracy. At the same time, lifelong tenure for leading cadres has been cancelled, a civil service system set up, and a system which combines selection and election of officials established. Under this system, promotions must be pre-publicized. At the same time, the household registration (*hukou*) and personal dossier (*dang-an*) systems have been drastically relaxed and administrative approval procedures trimmed to the bone. Now, major governmental decision-making is carried out only after extensive democratic consultation, and administrative systems suited to the socialist market economy are in place.

Anyone who views China's politics objectively knows that in China getting out of the old predicament of "politics is everything and the economy must be a planned one" could only be achieved through political reforms, since the characteristic of the old system was that the functions of government and enterprises were intermingled. China aims to settle this problem through economic and political reforms. From this perspective, China integrated its political reform with its economic reform, which centers on economic development and improvement of the people's livelihood. For example, consider the abolishment of the people's communes. On one hand the abolishment motivated the peasants' initiative to increase production and improve their own livelihood; while on the other it was an act of political reform involving the interests of the majority of the Chinese people. In a word, the political reforms in China have been launched far and wide, better than most outsiders know. Though China's political reforms are still inadequate, they embody some political wisdom by at least reducing the tre-

mendous social risks that might be entailed by a drastic, sweeping political reform, which has been the root of the collapse of some countries' political and economic systems.

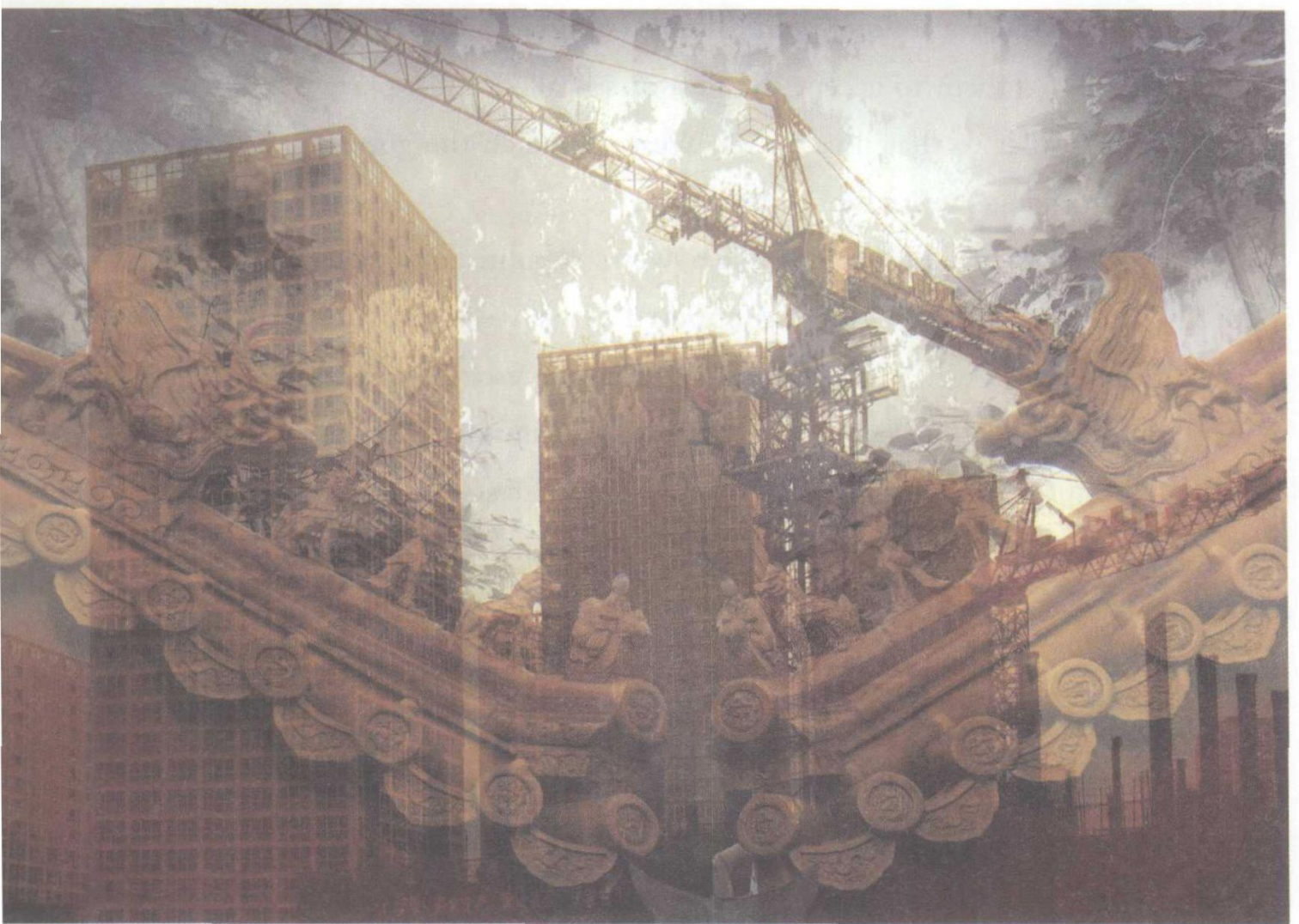
Some people turn a blind eye to the political reforms taking place in China. This is because they are parochial: they identify with nothing but the Western political model, and so long as your model is different from theirs, they will conclude that your political legitimacy has not been established, and your institutional transitioning and political reforms have not yet been put in place. They even believe that the Western model represents the loftiest ideals of mankind, and what China should do is to switch to the track of the West in every aspect of its economy, politics, and society. In that sense our discussion about China's political reforms today has a bearing on China's future development. To settle this, we need to know more about China and its political characteristics. Only by doing so can China's political reforms follow the right path and China's progress be more smooth and the results splendid.

Chinese Politics Within the Framework of a “Civilized Country”

China is not an ordinary country, but an unusual one; accordingly, its rise has had an unusual impact on the rest of the world. From the perspective of the modernization of the major powers, the first group of countries that rose in the world in the 18th and 19th centuries was Britain and France, with populations of about ten million each. The second group of countries that rose in the 20th century was the United States and Japan, with populations of 100 million each. And today, in the 21st century, China, with a population of over one billion, has surpassed the rise of the first two groups. This is not a simple matter of population growth; rather it is the rise of a country with a different nature, a modern and civilized country with a 5,000-year-old civilization, and the rise of a new development model.

China's rise has eight characteristics: a large population, a vast territory, a long history, a rich cultural heritage, unique language, unique politics, unique society, and unique economy. These factors are what reflect the general picture of China after long and gradual development. These factors also determine the uniqueness of Chinese politics.

China's population, territory, history and culture define the uniqueness of Chinese politics, and to govern such a country we should have our own method. All governments in Chinese history have had to improve the



A modern country with 5,000 years of civilization.

people's livelihood and deal with the challenges posed by a big population and vast territory. For example, the number of domestic passengers traveling during the Spring Festival in 2010 added up to 2.5 billion: a number equal to the combined populations of North America, Europe, and Africa. This is a challenge unique to China. Throughout their long history, the Chinese

people have cultivated a unique political and cultural awareness. It is hard for the majority of them to accept the idea of so-called multi-party democratic system similar to that used in the West, in which the governmental administration changes every four or five years.

The ruling party of China is not like a Western political party. It represents the interests of the majority, as opposed to its Western counterpart, which competes with other political parties, each representing different interest groups. If the ruling party of a country represents only the interests of a small group of people rather than the overall interests of the populace, the nation—and the populace—will become fragmented, and, ultimately, reduced to chaos.

In the West, many people think that regime legitimacy arises only from multi-party competition. This is a rather shallow political view. I have been asked by American scholars about the regime legitimacy of China. I asked them to think about their own regime legitimacy: that the United States was established after its occupation of others' territory, colonization, mass immigration, and extermination of the native peoples. According to China's political ideology, invasion and genocide cannot generate legitimacy. So if the founding of a country is not legitimate, where does its regime legitimacy come from? The explanation that it arose from history is insufficient. Nevertheless, throughout human history, the most common legitimacy is historical legitimacy. Political ideas and historical heritage shaped over a history of thousands of years is the prime source of legitimacy for a "civilized" country. The regime legitimacy of China is attributed to "popular support"

and "selecting the able and virtuous." These are the core factors responsible for China's political legitimacy overtaking that of the West over the course of several hundred years, and also represent a manifestation of the Chinese people's political wisdom.

When regime legitimacy took shape in China, most Western countries had not emerged, including Britain, the United States, France, and Germany. Regime legitimacy remains the one competitive edge China has over the West, even in today's era of global exchange.

We could also question the source of Western regime legitimacy with China's idea of "selecting the able and virtuous." Without such a concept, how could a regime hold power? Could it be responsible for its own people and those of the rest of the world? During the administration of President George W. Bush, the United States was plunged into recession; Afghanistan and Iraq were invaded, and the world was rocked by a financial crisis. China, meanwhile, is trying to integrate "selection" with "election," which is more effective than the Western system, which relies only on the latter.

China's population, territory, history and culture constitute supreme advantages, upon which a system of prosperity (economic, social, and political) can be built. China has the richest human resources and largest potential market, incomparable geopolitical advantages, a time-honored historical heritage, independent thinking, and inexhaustible cultural resources. If China abandons its model and merely copies the systems of the West, its own supreme advantages might become disadvantages, and China might turn from emphasizing "harmony" politics to "competition" politics.

China's development over the past three decades also proves that if China had not insisted on its own road, but merely followed that of the West, it very well might have disintegrated just like the former Soviet Union and Yugoslavia.

Political Reforms: Following Our Own Road with Confidence

As the "Greater Middle East Initiative" hit a dead end, and democratic countries plunged into one financial and economic crisis after another, mainstream Western scholars could no longer deny the argument made by scholar Francis Fukuyama, that "worldwide spread of liberal democracies may signal the end point of humanity's sociocultural evolution" was naïve. Western countries are faced with the need for political reform. Greece, the origin place of Western democracy, is now facing financial bankruptcy. Great Britain, the cradle of parliamentary democracy, is now beset with a grave financial crisis, and the United States, committed to preaching Western democracy with missionary-like zeal, is the source of the devastating world financial tsunami. Basic knowledge of Western politics shows us clearly that

its maladies, particularly the impact of its capital strength on politics, are the reasons behind these crises. If these countries do not carry out proper political reforms, they will inevitably confront an even gloomier future.

The Pew Research Center has conducted surveys in many countries concerning peoples' satisfaction with their governments. In 2005, its research in 17 countries found that a large proportion of Western citizens were not satisfied with their governments. However, at the same time, 72% of Chinese were satisfied with their government. In contrast, in the United States only 39% of those polled were satisfied with their government, while in France, the number was 29%. Another Pew survey in 2010 found that 87% of Chinese were basically satisfied with their government, compared with 30% in the United States and 26% in France (source: PEW Global Attitudes Project website).

These findings don't reveal all the problems related to the various countries' political systems, but they at least prove one thing: China's current political system has its merits, and its Western counterparts have their defects. Some people think that as China's political reforms lag far behind its rapid economic reforms, many problems have arisen. But we could also look at this problem the other way around: China has made unprecedented achievements with "less political reform." In other words, with such achievements China's next reform is to confirm its institutional success (instead of denying it like Gorbachev did in the Soviet Union), and further improve upon it after drawing upon China's collective wisdom with the additional confidence born out of economic success.

China has a totally different cultural tradition from that of the Western, and this underlies its political reforms. If we say the biggest characteristic of the Western cultural tradition is a set of customs and habits, and a system based on individuals, then the biggest cultural characteristic of China springs from the family and corresponding interpersonal relationships. In light of the differences in cultural tradition, the correct method of building democracy is to promote institutional innovation which will maximize our country's own advantages while combining its cultural tradition, rather than tailoring it to Western culture and the Western political system. Developing countries have failed in their efforts to copy the Western system time and again: they did not tackle corruption nor realize modernization.

David Hitchcock, an American scholar, has done surveys in the U.S. and seven Asian countries: China, Japan, South Korea, Thailand, Malaysia, Indonesia, and the Philippines. He found the ranking of societal values to be very different in these two regions. The people of the U.S. emphasize individual rights, while the Asian peoples emphasized order in interpersonal relationships. The sequence of those societal values is as follows:

Asia: 1. social order; 2. harmony; 3. government accountability; 4. acceptance of new ideas; 5. freedom of speech; 6. respect of authority.

U.S.: 1. freedom of speech; 2. individual rights; 3. personal freedom; 4. open debate; 5. survival; 6. government accountability.

In fact, this research confirms a conclusion that most Chinese and Asian people could draw themselves, based on their own common sense. One interesting fact is that the U.S. has been disseminating around the world the

values that are favored most by its public. But why can't China and other Asian countries promote their prized values too?

The individual-based legal tradition in the West is hard to transfer to non-Western societies. For example, in a family-oriented culture like China, when disaster strikes help comes from all sides, and this pattern also works among relatives, friends, colleagues, and even within the scope of the whole country. This cultural tradition helps the Chinese overcome many difficulties



Two hands clasped in hope of a happier future. April 2009, a group wedding for 20 couples was held in Beichuan County, Sichuan Province. People in the earthquake area started to rebuild their lives and their families.

which seem insurmountable for Westerners: from disaster relief, education, medical treatment, provision for aged parents, and purchase of houses. If we transform the flexible intimacy between Chinese family members to the rigid contract relationships of the U.S. and believe that it is the only way forward, we will meet a dead end.

The correct way is to make innovations while combining the advantages of both.

China should be realistic and explore its own development road and new democratic system in light of both tradition and reality: only by doing so will its political system find its optimum vital force. If we transplant Western “competition culture,” which emphasizes individual rights, into a “harmony culture,” which underlines balance of rights and obligations, it will be at odds with the new environment, and may even lead to confrontation and social disintegration.

In order to establish a democratic system that truly represents the people's will, the government should first of all free itself from the yoke of rigid Western political discourse, particularly the so-called binary opposition “democracy vs. autocracy.” Many people struggle to understand why they must choose democracy against autocracy and swallow Western political norms without hesitation. “Democracy vs. autocracy” could, in part, explain some of China's political choices, but this contradiction is too simplistic, being no more than a tool of ideology. The world is left with either democracies or autocracies: democracies are good and autocracies are bad. But this does not take into account, for instance, Hitler's emergence as the result of a demo-

cratic election, or the economic and social success of Singapore which was regarded as not-so-democratic by the West.

One important lesson China has learned from its reform and opening-up program is to judge a policy or a political system from "content and effect." In 1992 Deng Xiaoping put forward the theory of the "Three Favorables" during his southern China tour, which also enlightens us in discussing the construction of democracy. Deng put the judgment criterion of socialism as a result of its content and effect rather than its form and procedure. But in Western countries today, democracy is simplified into procedural democracy, which leads to the birth of many "lesser" or inferior democracies. The world is now glutted with these inferior democracies which are procedurally correct. We need to set the wrong right, and explore and define democracy within the framework of "good politics," taking both "content" and "effect" into consideration.

In fact, China has learned three important lessons from its reform and opening-up program in its search for a new pattern of democracy.

First is patience. China is realistic, and it is not guided by a perfect ideal but makes trials and experiments on a gradual basis. It brings people's initiative into full play, not confining it by rules and regulations.

Second is inner drive. Reforms only stimulated by effective inner drive can be conducted smoothly. What is effective inner drive? It is the true demands of a nation's thoughts, culture, and public sentiments, and constitutes the prime driving force behind political reforms. For today's China, the strongest inner drive is the urge to build mechanisms for anti-corruption,

intra-party democracy, service-providing government, and a society governed by law.

Third is prioritizing the people's livelihood, which should be the primary task of the nation. Construction of democracy should also be enhanced, so as to improve living standards, provide better services, and ensure a safer, happier, freer and more dignified life for the population. One important reason for non-Western countries' repeated failures in democratic experiments



March 5, 2011: the Fourth Session of the 11th National People's Congress was held in Beijing. A group of hostesses walk past the giant screen on Tian'anmen Square showing the increase in urban residents' per-capita disposable income from 2006 to 2010.

is that they didn't proceed from their own inner drive; they tried to build democracy for democracy's sake, but instead followed the requirements of Western countries and wasting political resources, thus deviating from the true demands of their people, whose livelihood often changed for the worse. Such democracy can never last.

With the above three lessons taken to heart, China should gradually explore a way to a better democracy than the West has, one which suits its own national conditions.

Western democracy is rarely successfully transplanted to non-Western countries, and Western philosophy transferred piecemeal has caused many countries to fall apart. Today, China's task is to pull at the door of democracy, to try to build a new type of democratic system better than that of the West both in quality and results; a democracy originating in Chinese culture while absorbing the merits of other systems. This is an important opportunity for China to make its own contribution to humanity.



Pan Wei

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How to Judge the Political Model of China

China has a history of over 3,000 years. Rooted in the profoundness of Chinese culture, the country has great capacity for coping with changes. Within only 60 years, and relying neither on war loot nor practicing colonialism, China has turned from being the world's largest poor agricultural country into its fastest-growing industrialized country.

China's current political system is deeply rooted in its 3,000 years of political ideology, social, and cultural environment. China has the ability to learn and adapt, thereby blossoming as one of the world's great political civilizations.

What is China's political model? It is the basic political system of China. From the academic point of view, every political system contains four basic elements: the concept of relationship between the people and the government; the method of selecting officials; major power organs; and the mechanism for preventing and correcting administrative errors. By analyzing the above four elements, we can differentiate all political systems in the world.

China's current basic political system is composed of four major aspects: people-oriented democracy (different from the Western democracy dominated by interest-group representatives); merit-based selection system (different from the Western majority voting); advanced governing group in political unity (different from the Western parties representing various interest groups coming into power through competition); and power balance by division of labor (different from the separation of powers adopted by the United States).

What is the concept of people-oriented democracy? It is a traditional Chinese political concept concerning the relationship between the people and the government. References to this concept date back to the early Western Zhou Dynasty (1046-771 BC). It was a common political belief shared by various schools of philosophy in the Spring and Autumn Period (770-476 BC). Passed down through the centuries, it has been transformed into a concept of "serving the people." Therefore, people-oriented democracy

indicates governmental care for the general well-being of its people. In modern times there emerged the concept of “people’s rights,” which generated “representative democracy.” This means that representatives of the people form a government, replacing hereditary rule. Moreover, the combination of people-oriented ideology and democratic thought gave impetus to “people-oriented democracy.” In terms of representation, people-oriented democracy has something in common with Western democracy; the difference is that



The screen wall inscribed with “Serve the People” inside the Xinhua Gate of Zhongnanhai.

the former requires the government to represent the interests of the whole of society, while the latter requires the government to represent partial interests and serves as a platform for the competition of interests.

Selecting capable and upright officials is important to all governments. There are many ways of selecting political leaders. Majority voting popular in the West and merit-based selection adopted by China are the two most common methods in contemporary times. The former is widely believed to be more advanced than the latter, but actually it is not. They both simply came into being under particular social conditions. The biggest problem of merit-based selection is that its evaluation standard is easy to manipulate. But majority voting has three bigger problems: first, why should those who voted “no” obey the referendum winner? Second, why should the minority obey the majority who might not represent the most correct or wise opinions? Third, designating two candidates is logically irrational, which means the absolute minority is forced to lose. The election system matures under the yoke of two harsh conditions: the people widely recognize this game rule; and people form the habit of obeying established rules. The two conditions are both particular yet not inescapable historical and cultural traditions.

In societies divided into classes and interest groups, parties representing their own interest groups compete for power as a matter of course. But in a society like China's that is not manipulated by classes or interest groups, general election through competition may not be considered rational. Since ancient times, the cohesion of Chinese society was ensured by the “advanced” governing group holding people-oriented Confucian beliefs. The Chinese

character 黨 contains two parts; its meaning advocates frankness and righteousness, while the root of its English equivalent, “party”, is “part.” An ancient Chinese saying goes, “A gentleman socializes but does not join cliques.” The Communist Party of China (CPC), as the country’s ruling party, differs from Western parliamentary parties in its political unity, diversified policymaking, and competition for merit evaluation. Because of this unified, neutral, and advanced governing group, China can strive for prosperity, achieve national unity, maintain its merit-based system in the selection of officials against cronyism, regionalism, nepotism and the formation of cliques, achieve administrative unity, defeat armed subversion, prevent separatists from splitting the country, and fight political interference by domestic and international powers. Because of the CPC, China was able to complete its industrialization rapidly and defeat foreign attempts at “divide and rule.”

China has a unified governing group which does not need to be balanced by separation of powers, but prevents and corrects administrative errors by division of labor. China’s power balance by division of labor has a long history dating back to the Qin Dynasty (221-206 BC), and is functionally as efficient as the separation of powers adopted by Western countries. Without this power balance, Chinese civilization could not have lasted over 3,000 years, and contemporary China could not have astonished the world with its achievements.

The most distinguishing feature of China’s political system is its unified governing group. This is an advantage, though it is also a shortcoming. When this governing group becomes corrupt and interest-oriented, not peo-

ple-oriented, the merit-based selection system and power balance by division of labor will lose their efficacy, thus bringing disaster to the country and its people. Interestingly, in China this governing group is periodically renewed and becomes the core of new trends. This is why China's political ideology has been able to survive the demise of dynastic rule.

No political system is perfect. The political systems of China and the United States are no exception. There is no perfect, permanent political model for all countries, because each country has its own unique characteristics, culture, and history. It goes against history, as well as scientific principles, to believe in a "universal" or "perfect" political system.

A political system should not to be judged from the standpoint of "escaping from the circle of prosperity and decline." Longevity is science, while immortality is superstition. Since a system is designed and implemented by people, people cannot be prevented from becoming corrupt. There is no political system to maintain the eternal life force of its country like a perpetual motion machine. No country can escape the circle of prosperity and decline. This is a law of nature and the universe, as well as a common historical phenomenon. The key to the longevity of a political system lies in good governance.

How can we judge whether a political model is good or not? In the *Social Contract* by political philosopher Jean-Jacques Rousseau (1712-1778), it is stated in Chapter 8 "All Forms of Government Do Not Suit All Countries," and, in Chapter 9: "The question 'What is absolutely the best government?' is unanswerable as well as indeterminate; or rather, there are as many good

answers as there are possible combinations in the absolute and relative situations of all nations. But if it is asked by what sign we may know that a given people is well- or ill-governed, that is another matter, and the question, being one of fact, admits of an answer.”

Rousseau’s answer is that good governance aims at improving people’s well-being. I cannot give a better answer than pragmatism. People admire the systems of developed countries mainly for the better well-being of their people, though the United States has not cast off the spectre of racism, the United Kingdom has a constitutional monarchy, and Japan prefers cronyism.

Judging from its macroscopic efficacy, China’s political system is successful. The Chinese government, led by the CPC, can meet the people’s changing demands, draw on the experience of advanced countries, and adjust its policy of pursuing justice and efficiency to cope with such changes.

After 1949, at the demand of the people, the CPC attempted to build a fair and equal social system covering basic needs such as food, housing, education, medical care, and income allocation. This system vigorously promoted the progress of all humanity. However, this system of “popular” equality also involved lack of freedom and labor initiative of the people, which led to serious shortages of consumable commodities. By the mid-1970s most Chinese people began to long for a more affluent life.

In 1979 the CPC addressed the people’s demands by giving up the egalitarian system and promoting a market economy. Through a dozen years of arduous efforts, the market economic system was established and proved quite successful. However, it then faced three major problems: severe envi-

ronmental pollution; severe inequality in housing, education, medical care and income allocation; and a seemingly endemic level of corruption.

Thirty years on, the CPC readjusted its policy and decided to rebuild its equality system in the midst of its now-affluent society by diminishing corruption and reducing pollution, so as to ensure that all people enjoy equality in housing, medical care, education, and income allocation. It is an arduous task to have accomplished this in a 30-year period. The CPC has experience not only in building an equal social system, but also has a solid ideological basis for improving the well-being of the vast majority of the people. This is the fundamental belief of the CPC as well as a traditional Confucian values, which reflect positively on Chinese civilization.

No political system can avoid making mistakes, but the key lies in correcting mistakes. In China's current political system, the CPC has shown that it is fully capable of correcting mistakes. Big powers have big issues to address, and resolving issues and problems leads to great progress for the whole humankind. Today's China is prospering, not declining.

In the midst of fierce international competition, China's progress is destined to be demonized. In such a world, China has a completely different reflection: that of a dark and hopeless China where freedom is stifled. Facing great difficulties, some Chinese elites might lose their faith and confidence, and even "jump ship". They may falsely believe in an almighty "advanced system" while despising China's historical and empirical experience, even finding an excuse for bribery and corruption while believing in tearing down the Imperial Palace to build China's own White House. After being beaten

and starved, China is summarily cursed by its elites for the current basic political system.

China has a history of over 3,000 years. Rooted in the profoundness of Chinese culture, the country has great capacity for coping with changes. Within only 60 years, and relying neither on war loot nor practicing colonialism, China has turned from being the world's largest poor agricultural country into a fastest-growing industrialized country. Undoubtedly, today's China is still less developed than its Western counterparts, and has not yet achieved their level of affluence even after 60 years. However, China is changing rapidly, and its progress over the past six decades is real and widely recognized.



Upper left: Dining hall of the Yuejin People's Commune in Hubei Province, 1959.

Lower left: February 15, 1989: commercial residential apartments were offered for public sale for the first time in Beijing. Several hundred people queue to register as buyers.

Upper right: A private enterprise in Zhejiang Province. Since 1999, the private economy has received unprecedented attention and support. After 20 years of development, the private sector accounts for 70% of Zhejiang's GDP.

Middle right: A low-income urban family receiving their relief funds. China has been working to improve the standard of living of such families since reform and opening-up.

Lower right: China will continue to balance its economic development against the needs of resource conservation and environmental protection. This is the waste water disposal and recycling system of Huaibei Linhuan Coal Preparation Plant in Anhui, the largest metallurgical coal washing and preparation plant in Asia. The system features a closed water circulation process and zero waste water emissions.





Yu Keping

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Good Governance and Happiness

In contemporary society, government carries an increasingly important responsibility for the social well-being and happy life of its citizens. The degree of happiness should become a major indicator for evaluating democratic management of a government.

Government has an increasingly important responsibility in helping determine the level of happiness for its citizens. This level of happiness should become a major indicator in evaluating the efficacy of democratic governance. Government should adopt the principles of both active interference and passive non-interference, and this requires great political wisdom to distinguish between the two. It is a common endeavor shared by all states-



September 1, 2011: Sanyuanqiao Primary School in Yangzhou holds an opening ceremony for its new semester. The theme of its first class is 'happiness' — experiencing a sense of happiness with a positive attitude, and finding happiness while continuing to make progress.

men and political thinkers.

Individual happiness and dignity are the perpetual values pursued by all humankind. In China, these values were reflected more in scholarly studies and social concepts, but rarely found their way into practical governmental action. In recent years, since Premier Wen Jiabao¹ put forward that the responsibility of the Chinese government is to “ensure that the people live a happier life with more dignity” in early 2010, local governments have issued various “happiness plans” and “happiness indexes.” Building a “happy society,” “happy city” and “happy community” has been officially included into the socioeconomic and political development plans by some local governments. During the “Two Sessions” in 2011, these “happiness plans” were upgraded into a hot topic that received extensive attention. There is international public opinion that the Communist Party of China (CPC) is building a “happy China” with great enthusiasm.

This raises an important political philosophy question, namely, what responsibility should the government bear for the people? Undoubtedly, in modern society, government takes a significant responsibility for the happiness level of its people. Government responsibility for the people is an open concept which can be interpreted quite differently in various nations. In this era of globalization, however, the responsibility of a government for its people is to achieve good governance.

It is generally believed that happiness represents the pleasure of individuals when their demands and desires are met. Fundamentally speaking, happiness should be an individual subjective experience. No individual can

experience this feeling in the name of others, nor can any government or organization experience this feeling on behalf of its citizens. However, this level of satisfaction of demand and desire is usually restricted by objective conditions, and government directly or indirectly determines and influences individual happiness by creating, providing, and withdrawing these conditions. As Bertrand Russell² pointed out, people's happiness has a bearing on social systems and individual psychological status, and the need exists to boost people's happiness through social reconstruction. Government has a compelling responsibility to maintain this level of happiness because certain fundamental conditions for achieving this must be provided by the government. In the contemporary world, people's livelihood and democracy are two basic guarantees of happiness. Improving people's livelihood and enhancing democracy are both key responsibilities of the government, which should be achieved through good governance, namely, public management through the maximization of the public interest. Good governance represents the joint management of public life by the government and citizens. It is a result of the best possible relationship between state and society.

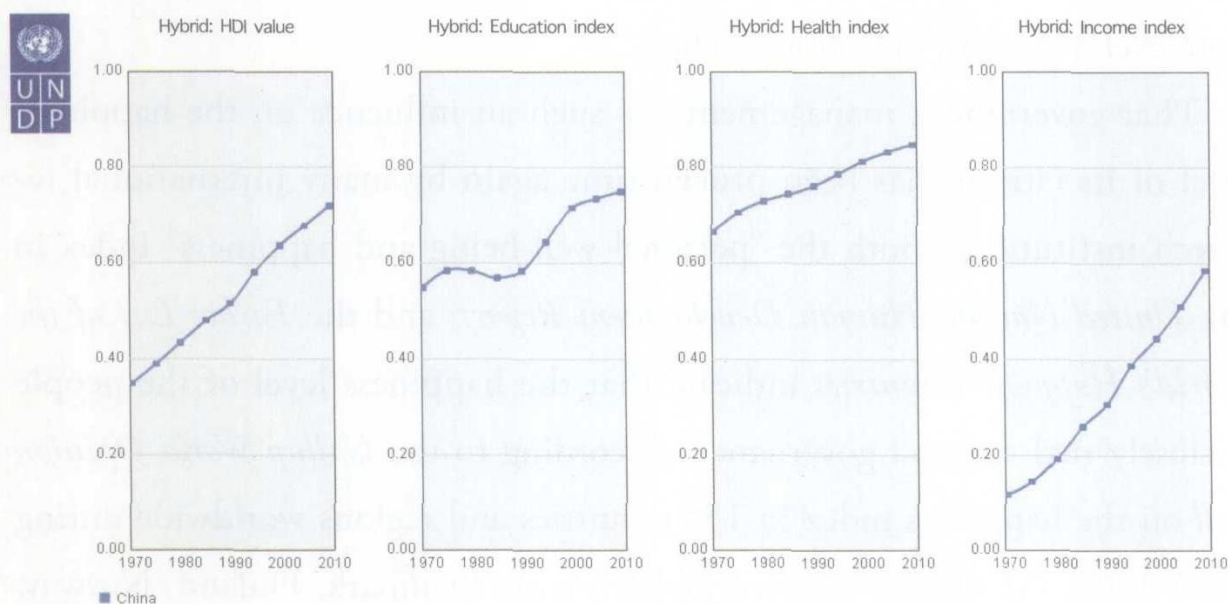
Generally speaking, good governance possesses the following 10 key elements:

- (1) Legitimacy, which refers to the conscious recognition and obedience of political order and public authority.
- (2) Rule of law, which means the law serves as the supreme standard of public political management, and all are equal under the law;
- (3) Transparency, which is disclosure of political information;

- (4) Responsibility, which means the basic responsibility of an administrator or civil servant for one's own behavior;
- (5) Response, which requires public administrative personnel and organizations to hear and react to the demands of the citizenry;
- (6) Effectiveness, which is management efficiency;
- (7) Participation, which refers to citizen participation in politics and other aspects of social life;
- (8) Stability, which means national peace, orderly, security, solidarity, and consistency in public policy;
- (9) No corruption, which requires government officials to be law-abiding and to avoid abuse of power for personal gain;
- (10) Justice, which means citizens enjoy equal political and economic rights irrespective of gender, social status, race or ethnic background, education level, religions, or political beliefs.³

That government management has such an influence on the happiness level of its citizens has been proven time again by many international research institutions. Both the "personal well-being and happiness" index in the *United Nations Human Development Report*, and the *Forbes List of the World's Happiest Countries* indicate that the happiness level of the people is closely tied to good governance. According to the *Gallup World Opinion Poll* on the happiness index in 155 countries and regions worldwide during 2005-2009, the world's happiest countries are Denmark, Finland, Norway, Sweden and the Netherlands. *The Human Development Report 2010*⁴ shows that these five countries are the most developed countries practicing good

public management. Denmark ranks No. 19 on the human development index list, has the world's lowest Gini index (0.247), which reflects income distribution equity, and ranks No. 2 on the gender equality index list, residents' average years of schooling (10.3), and overall satisfaction 72%; Finland ranks No. 16 on the human development index list, its Gini index is 0.269, its gender equality index is No. 8, its average years of schooling is 10.3, and its overall satisfaction at 80%; Norway ranks No. 1 on the human development index list, its Gini index is 0.258, its gender equality index is No. 3, its average years of schooling is 12.6, and its and overall satisfaction 80.1%; Sweden ranks No. 9 on the human development index list, its Gini index is 0.25, its gender equality index is No. 3, its average years of schooling is 11.6, and its



Data about China in the UN Human Development Report 2010. Source: "<http://hdr.undp.org/en/data/trends/>"

overall satisfaction is 79%; the Netherlands ranks No. 7 on the human development index list, its Gini index is 0.309, its gender equality index is No. 1, its average years of schooling is 11.2, and its overall satisfaction 78%.

In recent years, China has also launched assessments on residents' happiness and, going further, the relative degrees of happiness in various cities. Results have shown that the degree of happiness is also closely related to government management. For example, according to a recent survey on residents' happiness in Shenzhen⁵, among the top 10 most satisfying indicators, seven indicators involve a low carbon emission lifestyle, and among the top 10 least satisfying indicators, public morals and social equity rank highest, followed by noise, health and medical care, social security, and community participation.

Good government embodies the necessary conditions and responsibilities the government should provide to ensure happiness in the following six aspects:

- 1) Government responsibility. In the age of globalization, it is the responsibility for the government to ensure that the people "live a happier life with more dignity," as Premier Wen Jiabao said. It is an obligatory responsibility of the government to create external conditions to increase the level of happiness among citizens. Building accountable government has become a common goal shared by all countries. What is accountable government? Simply put, it is a government that is responsible for the overall well-being of its people. An accountable government should also establish corresponding systems and mechanisms to fulfill its commitments and responsibilities. If

the government fails in this regard, there should be a system to ascertain the government's responsibility so that it is accountable to the public at all levels.

2) Economic development. An adequate material lifestyle is the basic condition for realizing overall happiness. As Adam Smith stated, if a majority of members in society are poor and miserable, this society can't be prosperous and happy⁶. Without adequate income and property, there is no happy life. An old idiom goes, "money is not everything but almost everything needs money." To enable the people to live a happy life, economic development, accelerated transformation of economic growth modes, and improvements in the livelihood of the people should be vigorously promoted. This process is closely related to the absolute principle of government development strategy, especially in China. No matter whether in developed or developing countries, economic development is the core task of a government. However, national development should be balanced among politics, economy, culture, society, and the environment. Economic growth without comprehensive social development cannot ensure the people of a happy life, but might instead cause environmental damage and social inequity, which might bring calamity upon society and misery to the people.

3) Public service. The happiness of the people is ensured by peace, national prosperity, culture and education, health and harmony, convenient transport, material goods, and ecological balance, all of which fall under the aegis of public service responsibility. Building a service-oriented government is not an empty slogan but requires public finance and institutional guarantees. With accelerating economic growth and increasing financial income,



September 21, 2011: the “2011 International Coastal Clean-up” under the Northwest Pacific Action Plan initiated by the Ministry of Environmental Protection and United Nations Environment Program was held in Lianyungang, Jiangsu Province, China. Over one hundred people — local workers from all social circles and international representatives from many countries — joined together to clean a beach.

government should increase budget on public transportation, primary education, environmental conservation, social security, health and medical care, old-age pension and unemployment insurance, expand the scale of public service, and improve the quality of government service. The quality of public service determines the people’s life quality to a large extent.

4) Government management capability and people's happiness. Public management is a basic responsibility of government. The stress on government service does overshadow its management function. Public management and public service are both basic government functions which are complementary, inseparable, and of equal importance. In an affluent area with a highly developed economy, people cannot live a happy life if there exists social turmoil and disorder, rampant crime, and threats to security and public order. The powerless and ineffective government management only breeds misery and disturbances. Government management capability is determined by the attainments of government officials as well as by laws and regulations. Improvements should be made in both the government administration and in the legal system to ensure that law governs administration and society.

In modern society, government management capability mainly refers to government capacity to cope with public affairs in accordance with the law. When governing society, rules of virtue and morals should be brought into full play; when dealing with national affairs, we should rely on rule of law. Building a government ruled by law is the fundamental means of improving government management capability.

5) Government democratic management. Human beings are, by nature, political animals. Besides the needs of clothing, food, shelter, and transportation, they have political requirements such as freedom, equality, and participation. Only when their political and cultural rights and interests are safeguarded along with their economic rights and interests, can citizens have the sense of happiness in life. Democracy and the people's livelihood have

always been interdependent as two basic guarantees of happiness. In order to enable the people to live a dignified life, conditions and channels for their creative participation in the management of public life should be expanded; these include the right to vote, government transparency, and participation. It is a major government responsibility to expand democracy and make the people truly masters of their own happiness in society.

6) Education. Happiness is an individual, subjective experience which is closely related to unique perspectives on life, values, morals, and power



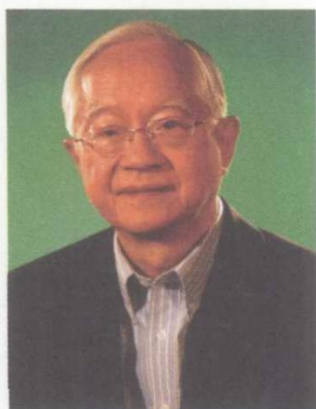
July 7, 2011: voters of Shazaojing Village, Huicheng Township, Hami City, Xinjiang, elect deputies to the national people's congress in the village committee.

that are all obtained through the process of socialization. A selfish, narrow-minded, or greedy person cannot live a happy life. One should not harm others to benefit him or her self while pursuing individual happiness, rights, and interests without first fulfilling their moral obligations. Here originates the issue of the education of citizens, which remains controversial to the government. There are various perspectives in this regard such as liberalism, communism, and Marxism. The education of citizens should be based on the perspective that it is their own responsibility and basic right to pursue a happy life. Citizens have the right to announce their request for a happy life towards the government, and to realize it through their own efforts, but they should also fulfill their obligations and responsibilities to society. Most importantly, citizens should not harm others while pursuing their own goals.

In contemporary society, government carries an increasingly important responsibility for the social well-being and happy life of its citizens. The degree of happiness should become a major indicator for evaluating democratic management of a government. However, government responsibility for happiness has its limits. The conditions that government provides are important and necessary yet inadequate. There are many conditions a government cannot provide. Government is to blame if it fails to provide objective conditions for its citizens to lead a happy life, and it should adopt the principles of active interference and passive non-interference. Happiness is above all individual subjective experience, and government interference is from the exterior, while it is citizens themselves who must lead their own lives.

Notes

- ¹ Wen Jiabao: "Ensure that the People Live a Happier Life with More Dignity," a speech delivered at the 2010 Spring Festival Gathering, "<http://www.chinanews.com.cn/gn/news/2010/02-12/2123548.shtml>"; also see "Report on the Work of the Government" delivered at the Third Session of the Eleventh National People's Congress on March 5, 2010, published on *People's Daily* on March 16, 2010.
- ² Bertrand Russell: *Principles of Social Reconstruction*, Shanghai People's Publishing House, 2001.
- ³ Yu Keping: "Introduction to Management and Good Governance" published on *Marxism and Reality*, Issue No. 5, 1999.
- ⁴ See *Human Development Report 2010* issued by United Nations Development Program, <http://www.un.org/zh/development/hdr/2010/>.
- ⁵ Zheng Ying: "Make Happiness a Community Image in Shenzhen," *Shenzhen Commercial News*, December 2, 2010.
- ⁶ Adam Smith: *An Inquiry into the Nature and Causes of the Wealth of Nations*, p. 72, The Commercial Press, 1972.



Wu Jinglian

Mr. Wu Jinglian is research fellow of the Research Development Center of the State Council, and deputy director of the State Council's Office for Economic Reform. He was the first scholar in China to propose the market economy theory and advocate for its support. He is a main representative figure of the "theory of market-oriented reform" in China. He is also a founder of the discipline of the comparative study of economic systems and has contributed to the advancement of China's economic reforms.

The Key to the Transformation of China's Economic Development and its Development Trends

The above discussion proposes that eliminating systematic obstacles and building an innovation system play a key role in realizing the transformation of the mode of economic development. It needs to be further pointed out here that the focus of the key issue is the reform of the government itself.

The year 2011 marks the beginning of the Twelfth Five-Year Plan (FYP). As the Proposal on the Formulation of the Twelfth FYP adopted by the CPC Central Committee states, the main line of the Twelfth FYP will be the acceleration of the transformation of the mode of economic development. Why has such a “main line” been determined? By what approaches will the transformation be achieved? What expectation do people have for the coming year and the entire period of the Twelfth FYP? These questions need to be analyzed and discussed carefully. Four major issues will be discussed herein: 1) The dilemma faced by China’s current macroeconomic policy; 2) Its solution lies in the transformation of the mode of economic development; 3) Pushing forward on reforms is the key to the success of this transformation; 4) The reform of the government is the focus of this key issue.

The Dilemma Facing China’s Macroeconomic Policy

In 2009, the policy of “expanding demand and securing growth” resulted in achievements, as expected. With support of the investment of RMB four trillion yuan and loans of RMB ten trillion yuan, China’s economy returned

to positive growth first on the globe. Its GDP growth reached a high of 9.1%. However, a relaxed macroeconomic policy had considerable negative influence. In 2009, China's broad money M2 increased by 27.7% while supply grew only about 9.1%. In 2010 M2 increased by 19.5% and supply grew only 10.3%. The comparison between these figures indicates that the demand with purchase capacity greatly exceeded the total supply of commodity.

The first problem caused by excessively loose monetary policy is the "re-leverage" of the balance sheet of an enterprise. The so-called "leverage" refers to the situation that the ratio of debts to capital becomes too high on the balance sheet of an enterprise. This is an important factor in the emergence of a financial crisis. As a result, different countries all take measures to de-leverage the process of crisis handling. However, Chinese enterprises, especially state-owned enterprises, and so-called "local financing platforms" obtained large amounts of state bank loans so that their balance sheets can be further "leveraged."

The second problem is that a considerable part of excessively-issued money flowed into the capital market so that the prices of real estate, which were already very high, continued to surge. There was a potential danger that the bursting of such a bubble might trigger market collapse.

The third problem is the increased threat of inflation. In November 2010, the consumer price index (CPI) rose by 4.4%. There was originally an official prediction that believed it would go down after November, but the prediction was wrong. The rising tendency of the general price level has not yet been contained.

As a result, there emerged the dilemma that the macroeconomic policy could be neither loose nor tight. If the government continues to implement a laid-back monetary policy like in 2009 and 2010, the bubble of asset prices will continue to inflate and there will be a market meltdown as a result. The CPI continues to rise so that common citizens face greater pressures in making a living.

Current economic growth is supported by the injection of large amounts of currency and the scale of investment projects in a process has become too large. If the government tightens its policy too quickly, there could be problems resulting in a drop of growth speed, an increase of the unemployed population, or shrinkage of enterprise operations due to fund shortages. In such a situation, what is the way-out for China's economy? This is a question that must be answered with care and effort. The short-term policy advocated by Keynesianism¹ cannot solve the problems China now faces.

In recent years, China's economic problems were often explained away with the fact that the troika of "investment, consumption, and export" has not been powerful enough. And they established the guidelines and policies to solve these problems on the basis of such fact. For instance, after the global financial crisis in 2008, people thought the main problem China faced was that its export demand decreased. Therefore, the problem could be solved at once if methods were used to increase demand by other means to support economic growth. But the result of implementing the policies to expand demand is that the proportion of the consumption demand to the GDP did not see an obvious increase. The growth of total export volume was

not slow. Yet the part of the demand that supported economic growth was not the total export volume but net export volume, namely trade surplus. Because import grew faster than export in the last two years, the demand produced by export trade decreased instead of increasing.

This being the case, then what did the increase of demand and the subsequent acceleration of growth during these two years rely on? It was investment, especially the tremendous investment from the governments at various levels and large stated-owned enterprises. In this way, the total demand increased, but such demand would not last long. Without the increase in consumption, the increase of demand solely produced by national fiscal investment and national bank loans would not last long.

The author believes that the problem here is, firstly, that a theoretical framework has been adopted wrongly to analyze the issue of economic development. Obviously the "troika" framework is derived from the Keynesian macroeconomic analytical framework, namely "Aggregate Demand = Consumption + Investment + Financial Deficit + Net Export". Many economists have challenged the Keynesian economic theory and believed that this analytical method is completely useless. Besides, Keynes himself specifically stated that his macroeconomic theory was to address short-term economic issues, not analyzing long-term ones.

As a matter of fact, even short term demand structure is determined by long-term production structure in the end. People should not chase their tails in adjusting short-term economic policy. Instead, they should turn their focus onto resolving the issue of long-term economic development,

or long-term economic growth. For instance, China's biggest headache is a low consumption rate that has caused low final demand. The problem is, if the income of various types of workers, including low- and middle-income workers, is not improved, the consumption rate of the entire society will not be raised. The structure of income distribution is determined by the structure of production. The so-called structure of production refers to the different amounts of contribution to production coming from natural resources, capital, general labor, and specialized labor (or human capital). If growth mainly relies on more investment of natural resources and capital like in the past, it is thus determined that, in income distribution, the income of the owners of natural resources and capital increases faster while the income of workers increases more slowly. The situation in China is that the income of the state increases the fastest, then that of the enterprises, and that of the workers the slowest. As the owners have far lower consumption tendency than the workers, it is very hard to improve consumption rates under the above production structure and its corresponding income distribution structure.

A conclusion could be drawn from the above analysis that people must start from addressing production issues when resolving income distribution issues, and then focus on the issue of low consumption demand. The important factor in this solution is that the efforts need to be driven by technological progress and efficiency improvement so that the population of workers with expertise and skill, namely the middle-income workers, increases, and their income level improves.

The Transformation of the Mode of Economic Development as a Way-Out

The transformation of the mode of economic growth, or the transformation of the mode of economic development, is the only way to get out of the current dilemma. The transformation of the mode of economic development was originally called “the transformation of the mode of economic growth.” It was a concept proposed by the Soviet Union in the 1960s. Its meaning is the transformation from an extensive growth mode that is driven by the investment of resources and capital, to one that is driven by technological progress and efficiency improvement.

With the implementation of the First Five-Year Plan from 1954, China procured from the Soviet Union a growth mode driven by mandatory accumulation. People hoped that it could quickly realize industrialization by means of large-scale investment. But such practice caused catastrophic consequences. The two economic adjustments implemented after the removal of the Gang of Four were both to correct the distorted economic structure caused by the extensive growth mode. In 1981, “to turn economic development onto the path of improving economic benefits” became the government’s administration policy upon the approval of the National People’s Congress. The requirement on the transformation of the growth mode was officially proposed in the Ninth FYP (1996-2000) and was reaffirmed in the

Eleventh FYP. In 2007, the Seventeenth National Congress of the Communist Party of China rephrased the term “the transformation of the mode of economic growth” as “the transformation of the mode of economic development.” The Suggestion on Formulating the Twelfth Five Year Plan, adopted at the Fifth Plenary Session of the Seventeenth National Congress of the Communist Party of China held in 2010, pointed out that the formulation of the Twelfth FYP must take scientific development as its theme and the acceleration of the transformation of the mode of economic growth as its main line.

The benefit in rephrasing “the transformation of the mode of economic growth” to “the transformation of the mode of economic development” is that, in this way, the transformation can include requirements other than economic development so that its content becomes richer. But as “the mode of economic development” covers many areas, it might not be easy for people to find where the key point is. The author believes that the core issue is still the transformation of the mode (or model) of economic growth. There are specific definitions about what growth mode specifically represents in terms of developing economics and modern economic history. China also had full discussion on such concepts during the formulation of the Ninth and Eleventh FYPs. The key point of these concepts is to achieve growth through improving efficiency rather than increasing resource investment. Simply put, it means to achieve growth by increasing the value added in gross national output. If people can focus on this core issue and resolve it, other issues in economic development will become easier to handle.

When this key point is made clear, the approach to realizing such a transformation will also become clear. At present, there is an argument that projects involving sophisticated technologies must be implemented if the mode of economic development is to be transformed. It is, in fact, a misunderstanding. Other countries have discussed this question in the past. In the United States, when people discussed about whether only computer microprocessor chips were technologies effective for the economy, Michael J. Boskin, chairman of President George W. Bush's Council of Economic Advisers, stated, "It doesn't make any difference whether a country makes potato chips or computer chips!" This is a good saying worth remembering.

When China formulated the Eleventh FYP, there was an earnest discussion about what the main approaches for the transformation of the mode of economic growth were. At the time, the following main approaches were proposed: 1) To accelerate urbanization and promote surplus rural labor finding jobs in nonagricultural industries in the city, thus realizing the transformation of the majority of rural residents from peasants to urban citizens; 2) To upgrade current processing and manufacturing industries and develop modern manufacturing industries; 3) To accelerate the development of service industries, especially that of producer service industries; 4) To realize the integration of informatization and industrialization and transform the entire national economy with modern information technology.

After 30 years of reform and opening up, with the watershed happening during the past decade, China has become a major manufacturing country. However, a great number of its industries are still working on simple process-

ing and manufacturing with very low value-added properties created. For the regions where processing and manufacturing are the main source of industry, there are two directions for the transformation of their development and the upgrading of their industries: The first is, as Stan Shih, founder of Acer, a Taiwan-based PC manufacturing company, said, China's current simple processing industry chain should develop toward both ends of the "smiling



July 13, 2011: a worker in Xuejiadao Battery Charging/Replacement Station, Shandong Province, recharging the storage battery of a bus. This is the world's largest electric bus battery charging/replacement station. It features the most comprehensive functions and the highest servicing capacity.

curve.” When more elements of the services in development, design, and brand sales are added, the value added properties will be raised. The second is that, while the processing and manufacturing industry extends to both ends of the “smiling curve,” paths to develop emerging industries should be explored. As a matter of fact, China has already had great potential to develop certain strategic emerging industries, for instance, information technology and telecommunications, electric cars, solar power and other emerging industries with international competitiveness might develop in China in the near future. It is the common responsibility of both the government and the enterprise circle to seize this opportunity and achieve a major upgrading of the industries in China.

Pushing Forward Well-rounded Reform in Order to Achieve Transformation

As previously mentioned, it was proposed early in 1981 that economic development in China should be turned to the path of improving economic benefits. The Ninth FYP officially proposed the requirement to transform the mode of economic growth. The Eleventh FYP reaffirmed the main line of the

transformation of the mode of economic growth. However, when it came to 2010, the last year of the Eleventh FYP, people found that the transformation had been far from adequate, so the slogan was proposed that the acceleration of the transformation of the mode of economic development “brooked no delay.”

Why has this situation happened? This issue was in fact discussed during the formulation of the Eleventh FYP. At the time, many people pointed out that the radical cause for the frustration of the transformation of the mode of economic growth was the presence of “systematic obstacles.” Such “systematic obstacles” include the following: 1) The government still retained too much power to allocate important resources. It was resolved at the Fourteenth National Congress of the Communist Party of China that the transformation would be achieved through market reform from a planned economy in which the government allocated resources with administrative decrees to a market economy in which the market played a fundamental role in resource allocation. However, such transformation has not yet been completed. The government still played a significant role in the allocation of important resources, with a tendency to expand in recent years; 2) The growth of the GDP became a main standard to evaluate the government’s administrative performance. The governments at various levels all used their power to allocate resources to create “good performance” and achieve high GDP growth; 3) There are imperfections in the fiscal and taxation system. For instance, the revenue structure is dominated by production-based VAT² and too much responsibility to major spending items were delegated to governments at lower levels. Such imperfections drove the governments at various levels onto the

path of pursuing high GDP growth; 4) The prices of the factors of production were distorted. The lower prices of such factors encouraged the government and the enterprises to adopt the means of development that could exhaust resources and destroy the environment. In sum, it was these systematic obstacles that made it hard for people to achieve the goals in the transformation of the mode of economic development.

During the implementation of the Eleventh FYP, people found another important reason for the slow pace in the transformation: that the system environment favorable to innovation and entrepreneurship has not yet been established. Since China's reform and opening up, the Chinese people's capacity for technological innovation has seen great improvements. Many of their technological innovations are on the cutting edge of relevant areas in the world. However, the commercialization and industrialization of these technical inventions has been met with great difficulty. Some projects never went past their incubation period. Although other projects resulted in the manufacture of relevant products, these failed to grow into industry leaders and were soon caught and passed by other enterprises. The reason for this situation is the failure to establish an environment that could encourage innovation and entrepreneurship. For instance, an entrepreneurship environment that could help small and medium-sized enterprises (which were the main source of technical innovation), and an intellectual property protection system that could stimulate creation and invention failed to be established.

It is very obvious that the key point here is to adhere to reform and opening up. Only then can the systematic obstacles to the transformation of the

mode of economic development be removed. Only through reform can the economic, social, and political systems favorable to innovation and entrepreneurship be established. As was pointed out at the Fifth Plenary Session of the Seventeenth National Congress of the Communist Party of China: Reform is the powerful drive that accelerates the transformation of the mode of economic development. People must push forward the process of reform in various areas in an all-around manner with even greater attention to resolution and courage. In this way, the superstructure can better adjust itself to the changes in the development of economic foundation and thus provide a powerful guarantee to scientific development. Therefore, the key lies in whether reform can be pushed forward in an honest and practical manner.

During the Twelfth FYP, reform must be carried on with even greater resolve. The first priority is reform in a state-owned economy. At the Fifteenth National Congress of the CPC, the agenda concerning reform included the adjustment of the distribution of the state-owned economy, featuring both advancement and withdrawal. From then on, the privatization reform of small- and medium-sized enterprises was implemented at a quicker pace at the turn of the millennium. However, there was some stalling in the adjustment of the distribution of state-owned economies in recent years. In some regions and areas there was a backpedaling phenomenon in which the state-owned economy advanced and private economy withdrew. The reform on the state-owned monopoly enterprises also stalled. The reform in these areas all involved the ownership foundation of the market economy and China's basic economic system. The development of such systems still needs to be

carried on in accordance with the requirements proposed at the Fifteenth, Sixteenth and Seventeenth National Congresses of the CPC. Moreover, it was resolved at the Third Plenary Session of the Fourteenth National Congress of the CPC in 1993 that a new social insurance system would be established. However, the progress was always slow in this area, although there was some progress achieved in the years since. Certain achievement must be made in this work area during the Twelfth FYP. In addition, the financial system will be further marketized and its supervisory system reformed. Lastly, the reform of the current fiscal and taxation system needs to be perfected.

As the market economy needs support from the systems in other areas, reform in other areas needs to be carried out in addition to the reforms of the economic system. For instance, in order to provide an environment for the legal system needed for a market economy, the reform to build a country under the rule of law must be pushed forward to an adequate extent. In order to supply the necessary innovative human resources for industry upgrades, radical reform needs to be carried out in the current system of scientific research and education, which suffers bureaucratization and official rank consciousness.

The Reform of the Government Itself Being the Focus of the Key Issue

The above discussion proposes that eliminating systematic obstacles and building an innovation system play a key role in realizing the transformation of the mode of economic development. It needs to be further pointed out here that the focus of the key issue is the reform of the government itself. To promote reform and provide a good system environment is the responsibility and duty of a government that it should always strive to fulfill. To reform old systems and establish new ones means that a government should implement a transformation and, after the completion of such a transformation, it can perform good administration on the things that fall into its administrative functions, and let go of the matters that it should not intervene in. As Premier Wen Jiabao openly admitted in his *Report on the Work of the Government* delivered at the National People's Congress, the government did many things in the past that it should not intervene in or could never handle well, and it also failed to address many things well that it should administer or handle well. Therefore, in order to realize the transformation of the mode of economic development, the government should implement self-reform in a practical manner to change its duties and functions. On the one hand, it should do what it should. On the other hand, it should avoid doing things it should not.

Considering the current situation, the government should do several things well: the first is to implement reform and provide a good environment for development. Other such things will include: to maintain the stability of the macro-economy, to provide basic social insurance, to establish an excellent education system and scientific research system, to do the work in planning and coordination, to conduct the development and research of commonly-used technologies and the "pre-competitive development" of general technologies through public-private partnership, and to remove external influence through developing energy-saving and environment friendly products.

During the transformation of the mode of economic development, one thing needs to be made clear: Enterprises are the main party in technological innovation. Neither the government nor the state-owned enterprises should take advantage of their own administrative power to monopolize the market and take the profits from private sectors. Under the present conditions, the government should pay special attention to the following: It should not designate technical routes or intervene in investment projects. Projects affected by its influence could hardly be efficient and might result in enormous waste. Each new industry might have its own unique technical route. Government officials do not have the information advantage to select technical routes and they do not bear the material responsibilities of their mistakes in decision-making. Therefore, the probability of success would be low if a government makes decisions on which technical route is to be selected in a product. With respect to the access of enterprises, the principle that "anyone may have free access as long as there is no specific prohibition in the law"

should be adopted. No administrative permission or “market access” should be established in violation of the law. The government should not provide “preferential policy” to specific enterprises and destroy the environment of fair competition. It should give subsidiary funding to the development of new technologies in fundamental or research-oriented studies that have great uncertainty but good social effect. But such subsidy and funding should be “pre-competitive.” Subsidies may also be given to products friendly to ecological environment for the purpose of removing external influence. However, it should avoid directly subsidizing the “supplier” but give subsidy to the “buyer” so that consumers could decide on which product to buy.

All in all, the transformation of the mode of economic development is a major topic. If China truly wants to walk out of the shadow of financial crisis and secure its sustained, steady, and fast development in the future, the most important step is to accelerate the transformation of the mode of economic development. The key to realizing such a transformation is to create and establish a good system environment through reform. Here, the focus of this key issue is the reform of the government itself. Only by prioritizing this focal issue can all other issues be resolved.

Notes

- ¹ Keynesianism, also called Keynesian economics, is the economic theory established on the basis of the ideas in Keynes' work *The General Theory of Employment, Interest and Money* (1936). It advocates that a country should adopt expansive economic policy and promote economic growth by increasing demand, i.e. it should expand government spending and implement fiscal deficit policy to stimulate economy and maintain prosperity.
- ² Production-based VAT is a type of value-added tax. The amount of tax in the purchase price of a fixed asset item of a taxpayer is not deducted in lump sum at the time of the purchase of such fixed assets. Instead, the tax amount is deducted by accounting period on the basis of the depreciation amount of such fixed asset items deducted in each accounting period and according to its service life. Therefore, for the entire Chinese society, the imposition of such a VAT means, in fact, that this tax is imposed on the national revenue.



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China in 2016: Facts and Conjecture

The level of wisdom required for winning in international competition will be tied to those who can make effective use of the structural adjustments of the next decade, resolve in a down-to-earth manner the main bottlenecks and key links that restrict fast, sound development in their own countries, and can form independent competitive advantages by relying on themselves.

It was reported in the April 2011 issue of *World Economic Outlook* (WEO), published by the International Monetary Fund (IMF) that, calculated by purchasing power parity (PPP), China's GDP will increase from 11.2 trillion US dollars in 2011 (China's GDP was about 6 trillion US dollars in 2010 when calculated at market exchange rate) to 19 trillion US dollars in 2016, while that of the U.S. will increase from 15.2 trillion dollars in 2011 (the US GDP was 14.7 trillion US dollars in 2010) to 18.8 trillion US dollars in 2016. In other words, China's GDP is expected to surpass that of the U.S. by 2016.

The above predictions imply an important hypothesis, namely, that China's current trend of catching up and overtaking has no chance of deceleration, stagnation, or even deterioration. If there appears to be a backwards-moving trend, such as economic deceleration or even the economic stagnation experienced by Japan over the last two decades, China's route of catching up and overtaking will likely change from continuous approaching and overtaking to deceleration or stagnation. As a result, the gap will be widened rather than narrowed in terms of catching up and overtaking. Therefore, instead of discussing when China can overtake the U.S. and how to make such a prediction, this article focuses on what a strategy of catching up and overtaking is needed on the ground in order to sustain China's long-term growth trend.

2016 as the “Threshold” of China’s Economic Development

Angel Gurría, Secretary General of the Organization for Economic Co-operation and Development (OECD) once said that when reviewing our era, historians would probably find that no country’s economic development was so eye-catching as China’s emergence. However, when they further broadened their historical horizon, they would witness rejuvenation rather than an emergence.

According to the research of Madison, a scholar in world economic history, China’s aggregate economic scale accounted for as much as 32.9% of the world’s total in 1820, much higher than those of Europe (26.6%), India (16%), Japan (3%) and the U.S. (1.8%) over the same period. From 1820 to 1839, however, Britain achieved a trade balance with China through opium trade, with the amount of opium transported to China each year increasing from 4,000 cases to 40,000 cases (Michael Greenberg, 1951). Britain launched a war against China after the Qing Dynasty (1644 - 1911) banned the opium trade. In the end, China was forced to pay 27 million taels of silver as indemnity for its loss in the Opium Wars.

China’s share in world’s total GDP was reduced from 1/3 in 1840 to 1/20 in 1950. Although China’s aggregate economic scale surpassed those of India and Japan respectively in 1952, it was far outstripped by those of Europe

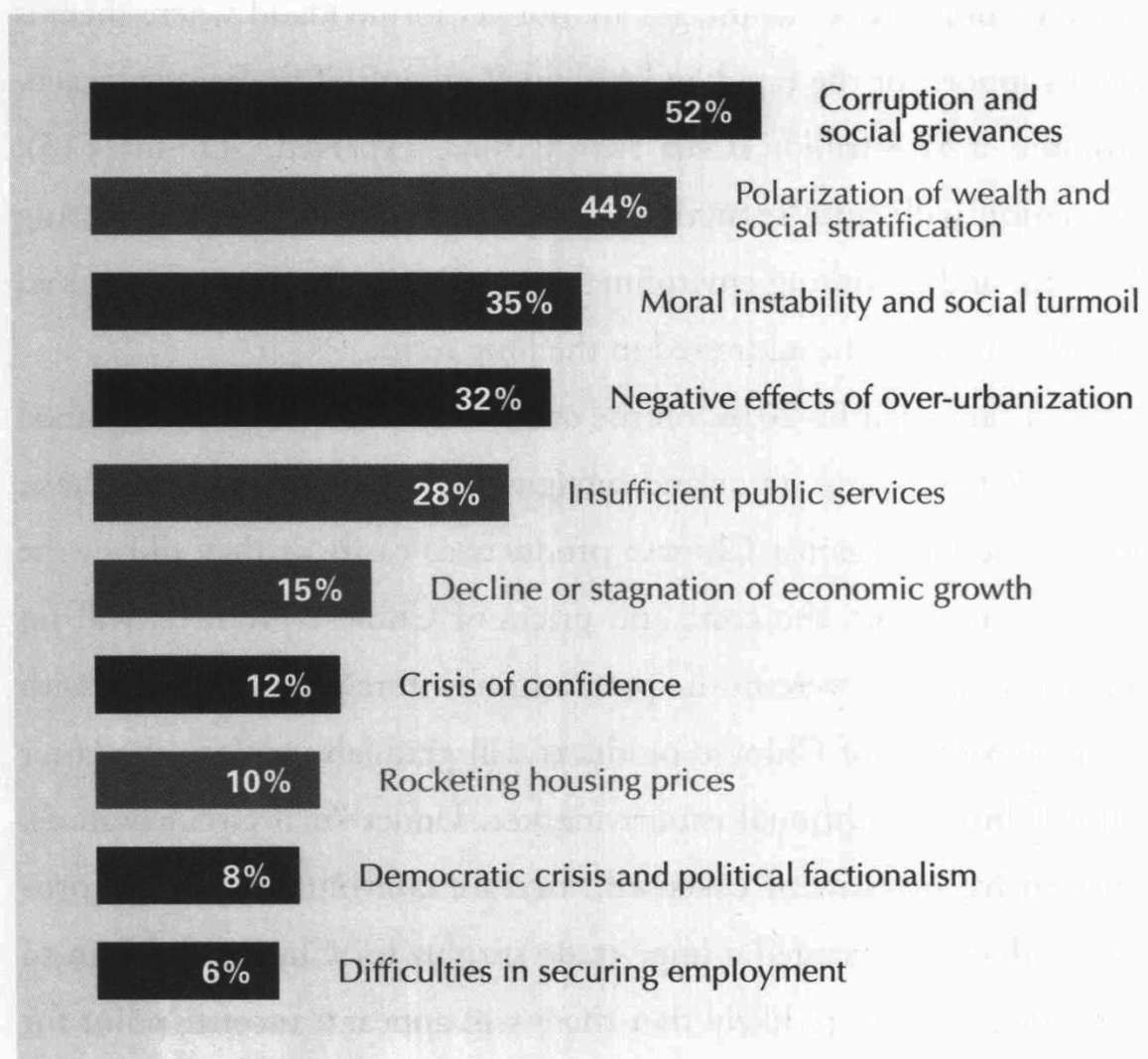
and the U.S. China's per capita GDP in 1952 was in fact reduced to that of 1890, while the per capita income of Japan increased 3 times, that of Europe increased 4 times, and that of the U.S. 8 times.

It was not until the founding of the People's Republic of China in 1949, particularly the initiation of the policy of reform and opening-up in 1978 that the Chinese nation began its great rejuvenation. China's aggregate economic scale surpassed that of Japan in 2010, ranking it the second largest economic power in the world. However, China's process of catching up and overtaking is unlikely to always follow a smooth path. Having experienced a long period of development, China is sure to enter a long period of adjustment. China has stepped over the threshold of low income over the past three decades and this will pose a serious challenge to its future development and whether or not it can smoothly overcome the middle income trap by re-adjusting its system, mechanisms, and strategies to a new structural level.

The IMF predicts that 2016 will be the "First Year of China's Century." In fact, the year 2016 is most likely to serve as a big "threshold" in the process of China's economic development. The year 2016 will also be the point of time when China obtains full market economy status. According to my estimation, the transfer of the transferable rural surplus labor forces will be basically completed by that time, and the low price workforce in large numbers from India and other countries will probably participate in international division of labor sometime between 2016 and 2019.

This means that, by 2016, with the significant and continued increase in China's factor costs, including labor force, land, environment, resources,

energy, the RMB exchange rate and asset prices, the low-cost advantages enjoyed by China in competition for 30 successive years will have been gradually exhausted. The year 2016 is likely to mark a turning point where China's economic development will shift from the stage of being driven by low-cost



What are the principal forces driving the Chinese into the middle income trap? "Can China Escape the 'Middle Income Trap'?" from *The People's Forum*, Issue No. 295.

factors to that of being driven by economic scale. Prior to that time, changes must be made with China's low-price competition strategy, with the momentum mechanism that sustains the current rapid growth of China's economy, and with the current system mechanism and strategy. Otherwise, it is quite likely that there will appear a situation where old advantages no longer exist while new, competitive advantages are not yet formed, and where there is insufficient support for the rapid and sustained growth of the aggregate economic volume of 55.8 trillion RMB Yuan (China's expected GDP in 2015). Such a situation will cause reduction in economic growth, ever-increasing social burdens, and mounting environmental pressures, all of which will lead to a plight that needs to be addressed in the long term.

This also means, that by 2016, on the one hand China will have obtained complete market economy status and foreign enterprises can no longer take anti-dumping actions against Chinese products as easily as they did in the past; on the other hand, the costs and prices of Chinese products will no longer be as low as they were in the past, and new foreign competitors with costs lower than those of Chinese products will gradually replace the latter and occupy China's traditional export market. Under such circumstances, as comprehensive investment costs will increase continually and the processing trade that once created a huge trade surplus for China will begin to be shifted abroad, it is very likely that there will appear a turning point for reduction in the considerable surplus from processing trade in 2016. In the meantime, the changes in the structure of foreign investment in China will also produce lasting influence upon the balance of China's international

payments. For instance, while there will be a huge increase in foreign investment in China's real estate industry, municipal construction and large-scale infrastructure facility, the proportion of foreign investment in the manufacturing industry will be reduced drastically; the proportion of foreign investment in China's domestic market will be augmented by a huge margin while the amount devoted to export will decrease sharply; the investment from tax havens and free ports will increase greatly while the investment from the real economies of European countries, the U.S., Japan and South Korea will be decelerated significantly. If such a trend continues, there will be fewer sources of China's trade surplus. Given the expansion of domestic demand and the efforts of "going global", changes will appear in light of the balance of China's international payments. The structure and the trend of the balance of China's international payments will likely deteriorate in 2016. To find a solution to this, it is necessary to promote the growth of the factors of independent and endogenous export so as to realize the fundamental change with the pattern and structure of China's economic development. This relies largely on the beginning of the changes today and the efforts in the days to come.

Identifying Potential Losers in International Competition

An American expert said at an international conference that China would definitely be the loser if there is competition between China and the U.S. This has been causing us to think where we can win in competition if we win it, and where we will lose in competition if we lose it.

In the decade from 1985 to 1995, when there was fierce trade friction between Japan and the United States, the proportion of Japan's GDP in the world's total increased from 10.6% to 17.9% while that of the U.S. decreased from 32.7% to 25.5%. However, in 2007, when Japan's GDP accounted for 8.1% of the world's total while the U.S. accounted for 23.5%, the trade war between these two countries ended in Japan's complete economic failure. In 1980, the per capita GDP of Japan stood at 9,138 US dollars, or 74.6% that of the U.S. It surpassed that of the U.S. for the first time in 1987 and reached 1.5 times that of the U.S. in 1995. Since 2000, however, the per capita GDP of Japan has been about 87.2% that of the U.S.

Where did Japan lose out in this competition? In 1979, many countries were faced with the plight of "stagflation."¹ At that time, the basic aspect of Japan's economy was good, while that of the U.S. was relatively bad. Since 1980, however, European countries got out of "stagflation" by "curbing inflation" at the cost of trading a high employment rate for a low inflation

rate. The U.S. got out of “stagflation” by “curbing stagnation” at the cost of high deficit, a high interest rate, and a high exchange rate. By 1985, the U.S. deficits under the current account and its financial deficits remained so high that it was difficult for the U.S. to continue adjusting its supply-side structure. Finally, the five Western countries convoked a meeting to study the countermeasures and concluded with the “Plaza Accord.” One of the countermeasures used was the appreciation of the Japanese Yen by a large margin to extricate the U.S. from the plight of its high exchange rate. The Japanese Yen appreciated from 250 to one US dollar in 1985 to 120 to one US dollar in 1987. As such a trend continued, Japan was faced with the dual plights of how to deal with a bubble economy and how to resolve a dual industrial structure (i.e. low efficiency industries, such as agriculture, distribution, banking, real estate, and manufacturing aimed mainly at the domestic market, failed to withstand the impact of the appreciation of the Yen). As a result, Japan has been plunged into a period of low and even stagnant economic development since 1990. By contrast, the U.S. ushered in the IT revolution and a new level of economic prosperity during the same period.

Economists from the U.S., Japan, and China generally agree that Japan lost out in international competition because it did not deal with its bubble economy in a proper way. Similarly, the U.S. did not cope well with its dot-com bubble in 2001 as well as the bubbles in finance and real estate in 2008; such mishandling led to an international financial crisis that had not been seen in decades. However, did the U.S. lose out in international competition? No. Why is this? At present, the U.S. endeavors to recover its economy

by mainly taking the following measures: for short-term recovery, increasing exports (a five-year rejuvenation program of doubling its exports) and adopting a quantitative easing policy (the start of a new bubble economy), and for recovery in the long term, making structural adjustments aimed at returning to high-end manufacturing, innovation, export, and the creation of jobs in these industries. It is estimated that it would take at least a decade for the U.S. to complete such a structural adjustment. Who will pay the bill for the medium- and long-term adjustments of the U.S.?

As to the adjustment of the development pattern, there is an international argument that the U.S. should increase its exports while China should increase its imports. Under the circumstance of a continuous reduction of global demand, the American strategy of doubling its exports will only exacerbate international trade friction. In fact, the U.S. should adjust its patterns of production and lifestyle products that are characterized by low savings and high consumption of carbon-waste products; it should adjust its industrial structure that is excessively reliant on the financial sector, and adjust its value orientation represented by globalization, or, in other words, Americanization. However, will such an adjustment be made in the U.S.? Not likely. On the contrary, the rebalancing of the global economy, RMB exchange rate, indigenous innovation, government purchasing, intellectual protection, industrial policies and State-owned enterprises all become the key issues on which both China and the U.S. challenge and contest against each other. In cases where the party responsible for the global economic rebalance is on the trade surplus side rather than on the trade deficit side, where RMB ap-

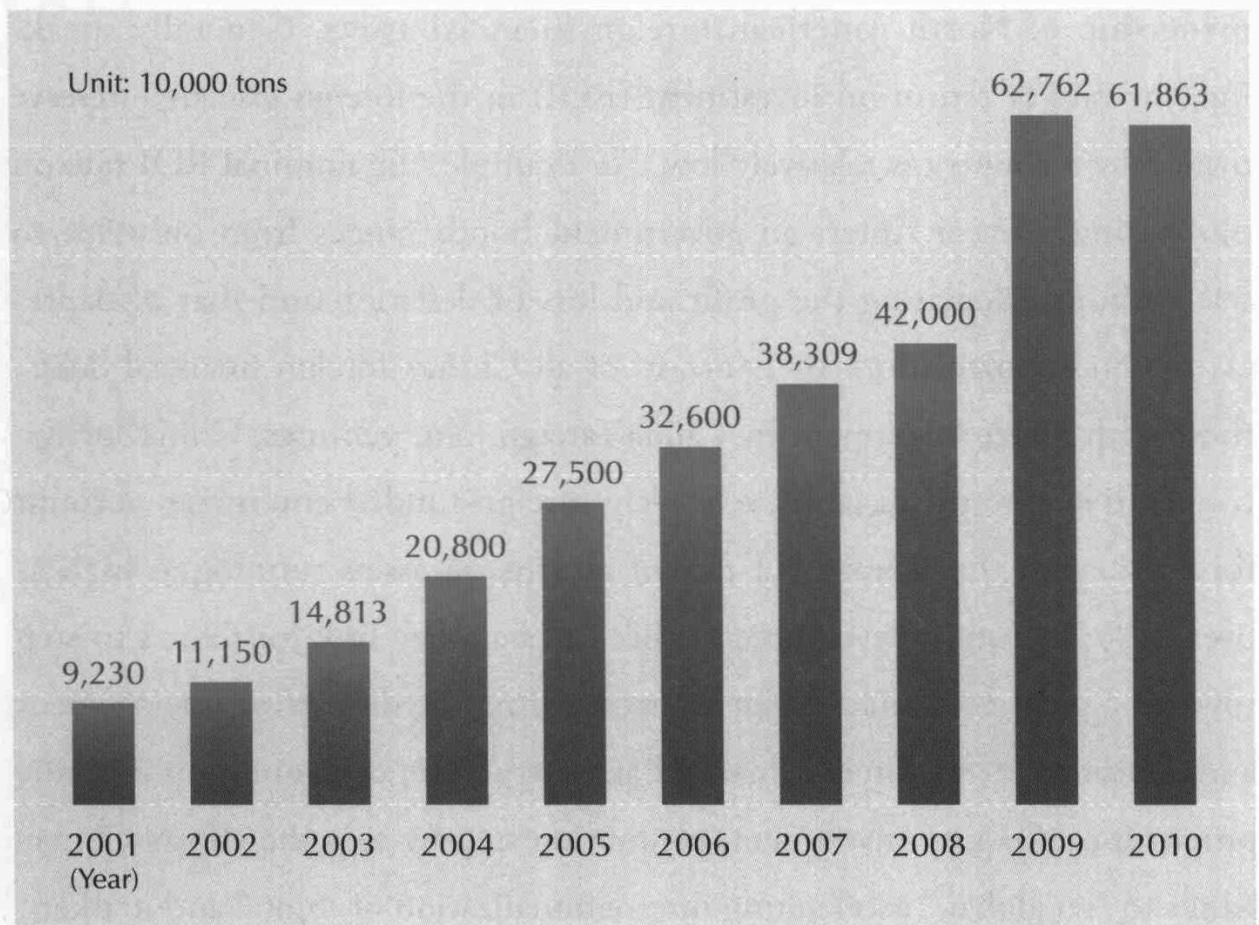
preciation against the backdrop of quantitative easing policy becomes the major source of inflow of hot money, international arbitrage, and domestic inflation, while the trade surplus remains unchanged; where foreign-invested enterprises become the main body of China's indigenous innovation while Chinese enterprises investing in the U.S. are discriminated against time and again; and where the government purchasing market is valued at 800 billion RMB Yuan is teeming with medium- to high-end goods produced by Chinese-foreign joint ventures, is China's prospect of catching up and overtaking still optimistic and grounded in reality.

China's March Toward a Great Economic Power

There is indeed a comparatively long way to go for China to transform itself from a hugely-populated country into a huge, open country. As a setter of prices rather than a follower of prices in a global economy; as a decision-maker of international policies rather than a passive follower; as an undertaker of significant international responsibilities rather than a global pariah. Although China occupies an important position in many important

fields in the world, it remains a follower in terms of price, game rules, assumption of responsibility, and other key aspects. For instance, although China is one of the most important importers of iron ore in the world, it has not yet obtained the right to set the price of iron ore. China must have a thorough understanding of the international game rules, market laws, and business liaisons concerning iron, steel, and nonferrous metal industries in a bid to gradually exert important influence on price-setting before it can obtain the rights to do so on its own. However, while China's iron and steel industry becomes the most important purchaser in the world's iron ore market, the price-setting mechanism of iron ore has changed from long-term contract pricing to seasonal price-setting, monthly price-setting, and spot price-setting. This reflects the fact that, although China has become the largest purchaser of iron ore in the world, it must endure a long process until it can change its situation from passive to active. In such a process China's enterprises should not only increase their investment in iron ore worldwide, practice strict economy and adopt replacement strategies in China, but also conduct a wide level of cooperation with enterprises supplying iron ore worldwide in order to form a regular power of influence and power of adjustment during reverse cycles in order to build its soft power.

In addition, China must enhance the capability of allocating assets across national boundaries during the stage of financial globalization, which constitutes an important role for China in its march towards attaining the status of a great economic power. At the current stage, of all the foreign financial assets owned by China, the share of foreign direct investment (FDI) con-



China's Iron Ore Import Volumes 2001-2010

stitutes about 7%, while that of foreign exchange assets is over 70%. By comparison, in the three largest global manufacturing networks, the share of equity investment and that of foreign exchange assets are 71% and 2% respectively in North American (U.S., Canada, and Mexico) ownership of all East Asian (ASEAN nations plus China, Japan, and South Korea) foreign financial assets. In contrast, equity investment and foreign exchange assets account for only 14% (and as high as over 40%) respectively in East Asian

ownership of North American foreign financial assets. Generally speaking, the rate of return on investment (ROI) in the foreign exchange reserve owned by a country is relatively low. For example, the nominal ROI rate on purchasing 10-year American government bonds ranges from only 3% to 5% without calculating the profit and loss of deflation and that of depreciation and appreciation. By contrast, of all China's foreign financial debts, those with direct investment by China-foreign joint ventures, China-foreign cooperative enterprises, and exclusively foreign-funded enterprises account for 61%, with the average net rate of returns on assets running as high as over 20%. In future development, this will be a key link for China to step towards a great economic power by accelerating the diversified management and allocation of its foreign financial asset structure, continuing to raise the proportion of equity investment, promoting step-by-step the efforts China's banks to "go global," accelerating internationalization of capital and markets, using foreign direct investment to complete regional layout through establishing regional and global industrial systems, integrated logistics hubs, distribution networks, and R&D and design centers. This process also requires the adoption of strategies using the quality resources and talents of Hong Kong, which serves as an international financial center, as well as making full use of the advantages and talents of Taiwan in industrial financing, investment, and innovation in a bid to promote the opening and ongoing development of the financial industry on the Chinese mainland. It also requires China to step over the "threshold" of prudence by coordinating the opening of financial projects, the marketization of reform of the RMB exchange rate,

and the maintenance of the relative independence of central bank's monetary policy.

In China's effort to catch up and overtake, it will be an important symbol for China to march towards attaining the status of a great economic power by gradually establishing regional and global sources of innovation, together with places for gathering talent during the process of opening-up and competition. At present, global R&D and innovative activities are mainly distributed in the great triangle of the United States, Japan, and Europe. When it comes to basic research, applied research, or developmental research at the cutting-edge level, the main bodies of innovation are large cross-national companies and national innovation systems composed of the best research-type universities and scientific research institutes in the world. In this respect, there is a huge gap between China and the U.S., Japan and Europe. In China, innovation activities are also conducted at different levels, i.e. the most significant technical innovation systems operating at the state level, such as research on the "atomic bomb, hydrogen bomb and artificial satellites;" the key technical innovation systems at the level of big enterprises, such as aviation and high-speed rail; and technical innovation systems at the level of small enterprises. As seen from the present situation, China's enterprises have poor technical innovation capabilities, with an innovation environment giving marginal support to the activities of enterprises, and the direct technical spill over the effect of attracting foreign investment is weak. All of these add up to one of the key bottlenecks restricting China from growing into an innovative country, and reflect the most important gap between China and the

U.S. in terms of knowledge and technical progress. Therefore, it remains one of the major problems that need to be urgently resolved as to how to build an environment most favorable to small enterprises, allowing them to create and innovate, and attract top-notch talent and other enterprises from around the world to take root in China.

Lastly, the importance of increasing China's supply of global public products cannot be overstated, as this will enhance China's sustained level of influence of its soft power. Such endeavors include actively promoting international trade, financial, and monetary reform; working hard to curb excessive emphasis on the liberalization and facilitation of trade investment in globalization, while "economic development" is less stressed (a situation leading to the insufficient supply of global public products, widening of the gap between rich and poor, and the severe reduction of consumption power and other social problems in poorer countries). Great effort should also be devoted to advancing global development aid, reducing poverty, promoting technology transfer that can be used for furthering development in such emerging fields as low carbon emissions, energy efficiency, and environmental protection). Efforts must also be made internationally to actively promote inclusive growth and economic growth and development based on equal opportunities. Efforts are also to be made to open opportunities for development in order to realize global socioeconomic coordinated growth while ensuring equal, fair participation. In such an endeavor, China's soft power and its power of influence aimed at promoting the sharing of development will take shape and be enhanced.

Note

- ¹ Stagflation refers to a state in economic life where inflation and low-speed economic growth are interwoven and coexist. It takes the forms as follows: on the one hand, economic growth is slow or even stagnates, leading to a huge amount of unemployment; on the other hand, inflation is exacerbated, leading to continued rise of commodity's price. These two aspects of the situation coexist at the same time.



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The Twelfth Five-Year Plan and the Megatrend of Urbanization

During China's modernization drive, urbanization transforms a nation in its process of human development. There must be both triumph and misery in such a process, which should not be thought as a romantic and containing only advantage without disadvantage, or progress without setback, or profit without expense.

China's current Twelfth Five-Year Plan differs most from the previous Five-Year plans in its emphasis on demand. The Eleventh Five-Year Plan focused on how to better achieve growth, promote technical advances, and develop new industries, with emphasis placed on the perspectives of competitiveness and productivity. The Twelfth Five-Year Plan, however, gives priority to demand, i.e. how to boost domestic demand in market expansion. One of our basic judgments is that whoever can generate demand will win the initiative in the future economy. The judgment is formed against the backdrop that, at present, 4 billion people join the workforce worldwide, with part of the workforce composed of people from China, Brazil, Chile, Russia, India, and the rest from other southeast Asian countries. The long-term worldwide trend is characterized by excessive supply and insufficient demand, while the capability of supply does not constitute a problem.

At present, demand is of primary importance. China is also faced with the question of how to create domestic demand. It is here that urbanization plays an important role. Urban construction, infrastructure construction, and the formation of city groups generate a huge amount of material demand including the demand for investment products. Unlike general investment demand, the demand for investment products covers long-term durable public consumer goods, e.g. subways, high-speed rail, and other urban infrastructure, rather than the excessive production capability that will become obsolete the next day. Such demand will support the long-term growth of China's economy. The next source of demand is the migration of farmers into the cities, which, in the final analysis, is the definition of China's urbanization process. Through looking for new and



According to the 2010 annual bulletin released by the Ministry of Human Resources and Social Security on May 23, 2011, the total number of migrant workers in China was 242.23 million, among which 153.35 million are working outside their hometowns.

better-paying jobs, in the city, farmers would gradually form a new middle-class. The urbanization process can represent a continual expansion of the middle-class if things go well (or an increase in the urban poor if the plan goes awry). An important factor behind the process is that economic demand will increase with the migration of farmers into the cities. Under the pre-condition of the increase in

employment, farmers will settle down in the city and demand will increase correspondingly. New and better opportunities will be available for the development of secondary as well as tertiary industries. It is from the perspective of exploring market demand that urbanization occupies an important position.

While ensuring the continuation of the Eleventh Five-Year Plan, the Twelfth Five-Year Plan places additional emphasis on resolving social contradictions, which can be considered its second main theme. An important topic proposed by the Twelfth Five-Year Plan is the synchronized growth of consumer income and the economy. The important connotation behind the topic is to narrow the income gap, which is a key point of the Twelfth Five-Year Plan. Centering on urbanization in China, social security coverage will be expanded to narrow the gap between income levels and between the supplies of public goods at different levels. This will be accomplished through increasing employment, adjusting public policies, and turning farmers into urbanites. At present the difference lies in that, while the urbanites enjoy a large number of public service products, no necessary service is provided to migrant rural workers. The process of urbanization should allow the income of migrant rural workers to grow with the increase in employment, while the gap between urbanites and migrant rural workers being able to enjoy public goods and lifestyle is narrowed. This is an important node in resolving social problems in China. It can be noticed that the real characteristics of the Twelfth Five-Year Plan are manifested in the following two aspects: promoting development by increasing demand, and putting more emphasis on social development. The process of urbanization occupies the central position in both aspects.

Urbanization and Domestic Demand

Domestic demand refers not only to residents' consumption, which is, at present, only a part of domestic demand. Another important component is that of investment demand, which is divided into the following three parts in China's total demand: 1) housing demand, which accounts for approximately 22% of the total investment demand and tends toward expansion in the future; 2) productive investment demand, which comprises about 50% of total demand prior to the international financial crisis; 3) infrastructure investment demand, which accounts for about 30% of the total demand. The proportion of the housing investment demand recovered to about 23% of the total demand during the international financial crisis. The productive investment demand was reduced to approximately 30% of the total demand due to excessive production capacity. It was the infrastructure investment that supported China's economy in 2009. Investment demand under normal circumstances in the future will probably present the following pattern: 30% for real estate and housing investments, 40% for enterprise investments, and the remainder 30% for public infrastructure investments. Of these three parts, housing investment falls into the category of the requirements for personal long-term durable consumer goods. Unless huge bubbles appear, housing investment belongs to normal consumption of

personal durable goods. The infrastructure belongs to the category of public long-term durable consumer goods. In the final analysis, the developing countries differ most from developed countries in the demand for housing and public infrastructure instead of the demand for daily consumption, e.g. how many household electric appliances are consumed. At an international conference, I was asked: with the construction of subway lines in China, when would overpasses be built in China equipped with escalators? In places like Tokyo and Hong Kong, these facilities serve the public regardless of the



March 16, 2011: the People's Bank of China released the results of a survey of depositors, bankers and entrepreneurs for the first quarter of 2011. 85.8% of urban residents favor saving, while only 14.2% favor more consumption — the lowest figure since 1999.

weather. The poor infrastructure accounts for why there appears to be “semi-urbanization” in the overall urbanization process in China, where there are many towns, each with a population of hundred thousands, where there are no roads let alone roadside lamps. This is typical of the lack of the construction of supportive public infrastructure. Therefore, when it comes to giving priority to hardware, urbanization means the formation of a huge amount of public infrastructure and investment. At present, this is of great significance.

An important reason why so much emphasis is placed on domestic demand at present is that, as the growth of resident consumption is lower than that of the GDP, the resident consumption cannot increase. In addition, there is a huge increase in savings deposits, particularly among enterprises, which account for 51% of GDP. China's savings rate is, in fact, the highest in the world. With such a huge amount of savings deposits, how can China expand its domestic demand? Over the years, the savings rate of ordinary Chinese people has remained stable at about 30%, without much change. About 70% of Chinese residents are considered low-income with the lowest savings rate. Although there is a high savings rate in China, it does not follow that the savings deposit rate of the Chinese people is high, or that the Chinese people are unwilling to spend money. Instead, the real reason behind the high savings rate is the huge growth in savings deposits of the enterprises, which have become the biggest savers in recent years. Of all the present-day bank savings, those from enterprises account for over 40%; those from residents take up about 40%, and the remaining 20% are from the government, mainly in areas of government economic investment.

It cannot be expected that the desired results of changing the savings rate

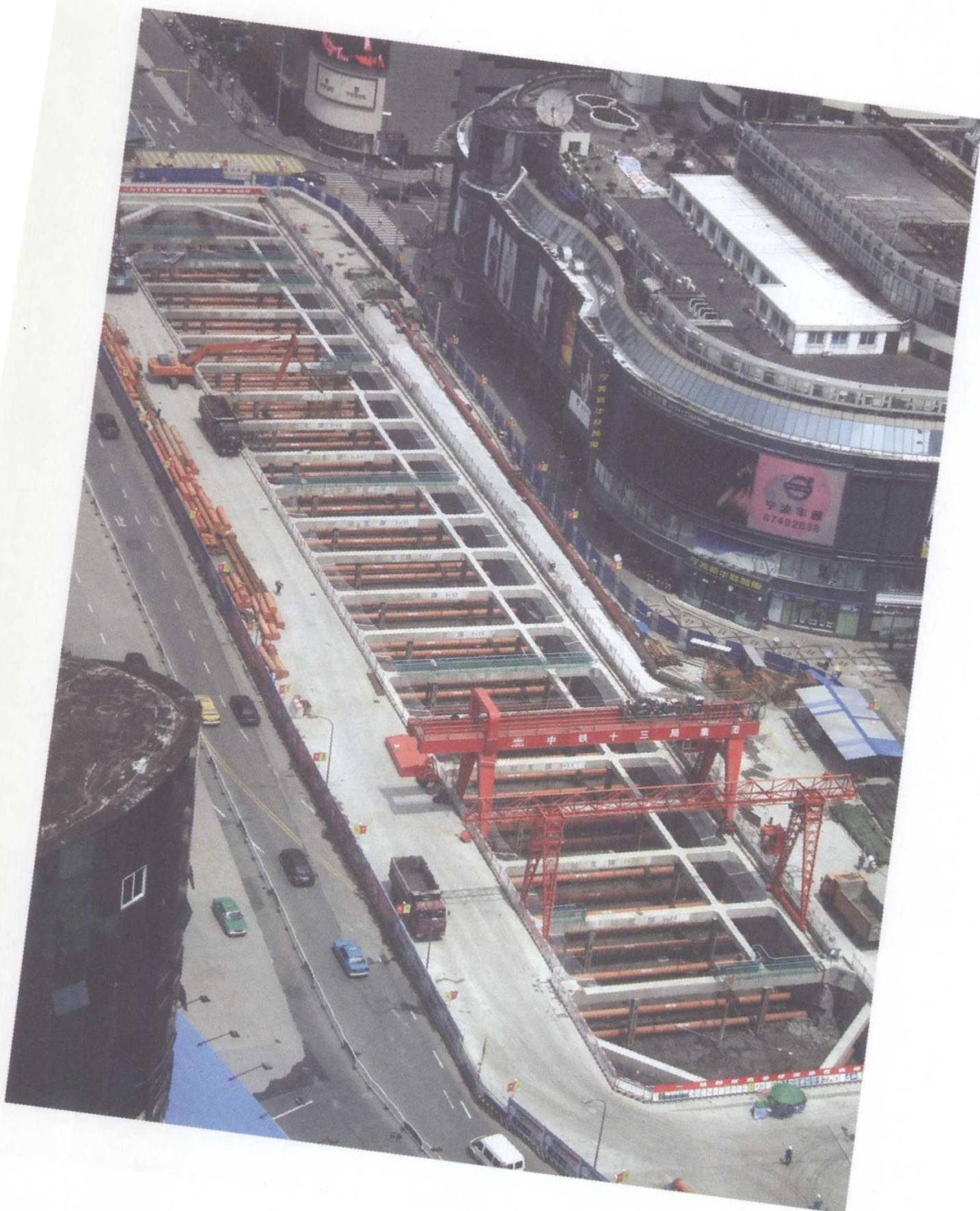
and increasing residents' consumption under the present structure would be achieved in a short period of time. Because this involves the introduction of a series of measures, including taxation reform, the transfer payment of public property and injecting still more money into the social security fund. Meanwhile, the resistance to be confronted during the process of carrying out these measures is formidable. It is the author's view that with the completion of the Twelfth Five-Year Plan, China's savings rate will be reduced from 50% to 45%, with possible further reductions in the future.

Under the circumstances where the savings rate is relatively high, it is necessary to increase the investment in infrastructure construction in a bid to promote domestic demand and reduce favorable balance of foreign trade. It is not necessarily true that high savings deposits will lead to imbalance in the economy. Domestic demand can be boosted by spending part of the savings through making investments. It was China's domestic demand that supported the prices of the world's resource markets last year, and it is on this point we disagree with outside analysts. This is China's own demand, and represents an opportunity in two aspects: 1) Urbanization hardware construction can be accelerated during the period of high savings rates. Historically, at a similar stage of relatively high savings rates, other countries spent money in launching large-scale infrastructure construction, including the building of high-rise developments. With such high enterprise savings deposits, China is faced with an opportunity of developing urban infrastructure construction; 2) Good opportunities are available now worldwide. China's trade surplus was reduced from 11% in 2007 to 5% this year. Why? Because those years saw the climax of world financial bubbles, when

there was already high demand worldwide. A little increase in China's investment would lead to skyrocketing prices. On the contrary, at present there is inadequate demand in developed countries, and it is the demand generated in China and other developing countries that mainly prevents the prices from falling. Therefore, from the perspective of resource supply, these days and the days to come represent a relatively good period of time when urban hardware construction should be accelerated.

China's urbanization will play a bigger role in achieving balance in the domestic economy as well as in the world economy. With the savings rate going as high as 40% to 50% in China, this level of savings stability will likely remain for a long period of time. This, coupled with centralism, will make it easier for China to make an overall plan of nationwide infrastructure construction. It is quite likely that China will have the most complete and highest-quality infrastructure system in the world, including city infrastructure and high-speed rail. At present, what is needed is the infrastructure construction of water conservancy and environmental facilities. This will be emphasized in the Twelfth Five-Year Plan, which will play an important role in the overall pattern of economic development.

China's economy presents an important analytical pattern, particularly with regard to changes in demographic distribution, which differentiates it from other countries. History shows that at the last stage of the modernization drive in developed countries, about 80% of the total population was concentrated in the coastal regions 160 kilometers away from the sea, where economic traffic was good and jobs were available. However, China is dif-



ferent in the following aspects: it has an excessively large population and its coastal regions are proportionally small. If enterprises are concentrated in regions 160 kilometers away from the sea, there will be an excessively high degree of concentration, and such concentration would incur exorbitantly high costs for enterprises. If a comparatively good public traffic net can be built nationwide, this would lead to an expansion in areas of populated areas, driving the development of some cities in the central part of China.

Urbanization Can Be Achieved When Farmers Migrate to the Cities

What matters most in urbanization are solutions to people's problems rather than construction of facilities in cities. Urbanization is a process of social transition. It does not refer to the process itself of urban

Left: By the end of 2010, 48 urban rail lines with a total length of 1,395 km were in operation in 12 cities including Beijing, Shanghai and Guangzhou. Now 28 cities have state approval and plans for 96 urban rail lines by the end of 2015. This is a construction site on the Ningbo urban rail network.

development, nor does it refer to the process of how the urbanites live a better life. Neither of these processes is urbanization. The essence of urbanization is the migration of farmers into the city. It is the process by which the people originally living in the countryside migrate to the city. It encompasses the changes to people's way of life, way of work, and the social structure of the population. Though farmers who migrate to the cities belong to a low-income bracket and have to engage in low-income jobs, so urbanization is



A migrant worker's melon farm, started after he returned to his hometown. He grows watermelon all year round on 87 hectares of farmland for which he pays an annual rental of 6,000 yuan per hectare.

a process manifesting social contradictions, and policies are needed to deal with the social contradiction of the gap in income and other social problems caused by the migration of poor people into the city. This is the fundamental issue of urbanization, representing a social transition full of contradictions.

Compared with other developing countries, China is endowed with a unique advantage: there is no large group of urban poor. The reason for this is that the land system in rural areas provides millions of farmers a basic social security: there is still somewhere to go for any farmer who fails to land a job or who loses it in the city. So, up to now, the farmers migrating to the cities are mainly those who have found jobs. Although they are still poor, they are still able to find jobs. This is different from the situation in some other developing countries in Latin America or Southeast Asia, where a large number of farmers lose their land for one reason or another. As these farmers lose their jobs after losing their land, they are reduced to urban poor. For a long period of time, 40% of the urbanites in many developing countries lost their jobs and lived in slums for decades. As a result, the unemployment rate remained high for a long period of time, and the gap in income between people of different social brackets widened correspondingly. Instead of a source of high income, land represents security for farmers. No rapid changes should be made with the present land system, and any changes should not be carried out until there are other forms of social security that can replace the land system, because land remains the only life-line for the farmers. Up to now, those who can find jobs stay in the cities while those who cannot return to their hometowns. During the recent financial crisis, for example,

20 million migrant rural workers returned to their hometowns; after all, they still have a place to go. In terms of guaranteeing the interests of farmers, no other country can match China in establishing such a system.

One step at a time, those who can find jobs will settle down in cities and become urbanites. The synchronization of urbanization and industrialization will prevent the occurrence of a permanently unemployed population and a population of urban poor who account for 40% of the total urban population. Urbanization is a social process reflecting economic development and social development in transition. It is a process full of contradictions. Historically, the urbanization of China has reached a level not matched even by Western industrial nations.

Challenges Confronted by Public Policies in Urbanization

Urbanization policies are a set of public policies. The implementation of such a set of public policies is aimed at easing various contradictions in the process of urbanization.

The first major challenge is the present social security system. In a broad

sense, the social security system is responsible for providing healthcare, unemployment benefits, and other issues. The major defects with the present social security system are that it cannot cover everyone in society at large, nor can it be transferred to other areas of society. To address the defects, a compulsory objective should be set to realize the full coverage of social security for the whole of society during the period of the Twelfth Five-Year Plan. In addition, a nationwide overall social security system should also be put in place so that the personal social security benefits can be transferred as farmers migrating to the cities move from one place to another. Establishing a nationwide overall social security system is a task of primary importance for the immediate future. Addressing the problem of putting the farmers migrating to the cities under the coverage of the social security system is the first step toward equalization.

The second main issue is how to turn farmers into urbanites after farmers migrate to the cities. Farmers need more than an urban identity; they need the guarantees provided by a series of public services standing behind their new urban identity. Can the farmers migrating to the cities enjoy education, guaranteed healthcare, guaranteed housing, guaranteed unemployment benefits? The same benefits as registered permanent urban residents enjoy? If all migrating farmers are assured these guarantees, it is more than the government can afford. Rural migrant workers with low incomes, for example, cannot afford the social security fees at the level corresponding to an average urban worker's salary, nor can the government afford to subsidize them. However, it is unfair for farmers-turned-urbanites

to enjoy social security benefits at the same level as other urbanites if the farmers cannot afford the full social security fees. Can China provide public goods together with social security benefits in a stratified way, so as to achieve a multi-level supply of social security benefits and the public goods, with broad coverage, and a program suitable to China's present national condition? It is the author's suggestion to attach more importance to the concept of permanent population while putting less importance on the household registration system, and establish a double-track system to achieve the gradual transition in speeding-up the process of turning farmers into urbanites through two or more levels. For example, in Shenzhen City, there are now less than 3 million people in the registered population, and about 10 million in the permanent population. For the time being, the government cannot afford the supply of public goods to 10 million in the permanent population when considering the standards of the 3 million in the registered population. There will only be a small number of people who can obtain permanent urban registered residence status each year if the public service enjoyed by the permanent urban residents at the present level is taken into consideration. The gap between those who can obtain the permanent urban registered residence status and those who cannot is very wide. While some people can become urbanites, the majority of migrant farmers will not be able to obtain the fruit of public goods for a long period of time. Emphasizing the concept of permanent population means that, while ensuring the supply of public goods for the existing permanent urban residents, we should put newly-increased financial sources into the

permanent population that occupies the majority of the total population by providing them with basic guarantees at the low level. For example, the supply of public goods can be started with basic education, to be followed by healthcare and other public services. In this way, public services can be provided gradually, including the majority of new urbanites, starting from a relatively low level. The public guarantee can be improved, step-by-step, with economic development and the improvement in the income of rural migrant workers. Through the adoption of such a measure we acknowledge the reality and the gap between the urbanites and farmers migrating to the cities, and we can gradually complete the process of urbanization by narrowing the gap through a double-track system. This is an essential part of public policies concerning urbanization.

A third question concerns the supply of land. Urbanization requires that a part of rural land be "transferred as part of urban land." Farmers migrating to the cities are the easiest component for us to manage now. The concept of farmland as the land reserved for the survival of farmers should by no means be transferred hastily. However, can the land used for building houses in rural areas be transferred as the land for urbanization? The land area used for building houses in rural areas nationwide exceed 5 times the amount of land used for urban construction nationwide. In the present situation, a farmer migrating to the city would rent a small room there but leaving a "villa" uninhabited at his or her hometown. The more farmers who migrate to the cities, the more vacant "villas" in rural areas are. How can land left uninhabited in rural areas be transferred? How to start

using land from the outskirts of the big cities and then further expanding the area of such land? It is hoped that at least in some regions, land can be supplied step-by-step following an overall urban-rural development plan. The interests generated from land supplied in this way should be coordinated, and the farmers themselves should obtain tangible benefits. Social security measures should be implemented correspondingly, in addition to economic interests, etc. At present, this is a sensitive topic, and the launching of pilot projects should be encouraged and supported in some regions. There is no doubt China's urban land is in short supply. The per capita arable land in China is only 40% of the world average, the area of habitable land in China is small, and the farmland must be protected. Therefore there must be a solution as to how to effectively utilize the land, including how to reduce the land left unused, because the land supply involves the question of people's housing.

The fourth question is how to handle the income gap in urban areas and how to enable both people with high income and those with low income to work and live contentedly. It cannot be denied that there is an income gap, and that the gap will remain for the next 30 or 40 years. How can the solution to these questions be reflected in urban planning? How can it be reflected in urban public policies? How will contradictions be resolved? How

Right: According to the bulletin released by the Ministry of Housing and Urban-Rural Development, 7,218,000 urban indemnificatory apartments and renovated shanty houses were under construction from January to July, 2011.

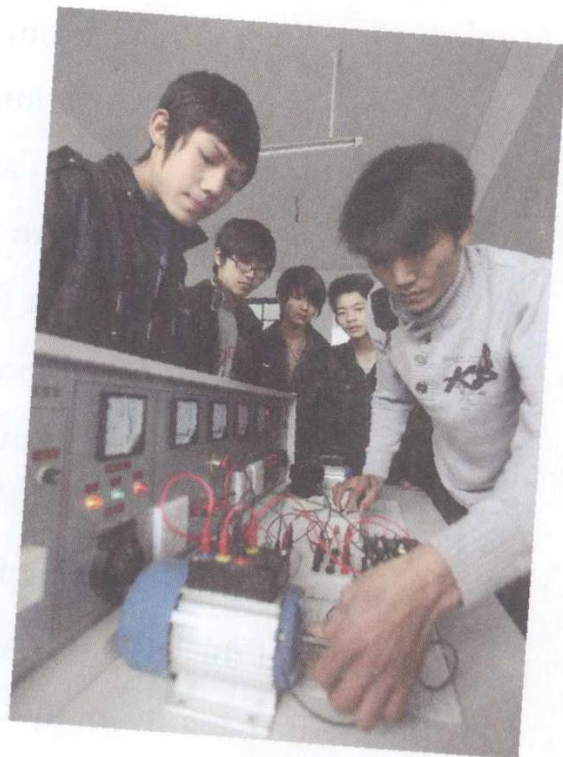


to cope with income disparity? For example, how to enable low-income workers to afford housing? Can the construction of completely new houses answer this question? What type of housing is affordable to the low-income population? The low-rent houses newly built by the government are inexpensive, but how many low-rent houses can be built? In fact, building low-rent houses can only address the question of providing housing to the poorest people, which accounts for only an extremely small percentage of the total population. For most people, the most inexpensive and affordable houses must be old houses, and it is why the process of pulling down old houses should be slowed. In some regions, time is not lost in pulling down the old houses in the "villages of the city" to such an extent that the old houses are almost regarded as "a thorn in the side" of progress. The right way of thinking is to attach more importance to how to provide housing guarantees to low-income groups of people under limited conditions. In Chongqing City, the relatively inexpensive houses conforming to the nature of low-rent houses are regarded as the houses that can be leased, and the corresponding housing subsidies are provided. In this way, many houses become affordable to low-income groups of people shortly after they migrated to the cities. Facing the income gap as a reality, a policy should be formulated that can provide housing guarantees to low-income people. This is a challenge that we should take into consideration.

The fifth question is the providing of vocational education to guarantee employment. In the final analysis, government subsidy can only alleviate the problem of the income gap but cannot address it, and a more important

March 14, 2011: young migrant workers receiving electronics training in a vocational school.

April 21, 2011: Wang Yan, a farmer from Boai County of Henan Province, is now working in a clothing company after receiving vocational training.



question is to provide education. In the process of urbanization, how to provide more vocational education or lifelong education to farmers shortly after they migrated to the cities, and how to provide their children with an educational environment so as to guarantee their employment and income, are the fundamental conditions for long-term urban development and the gradual formation and expansion of a middle-class. They also represent an improvement in the human resources pool. Previously, farmers moved from one place to another; now they are encouraged to settle down and are provided with more vocational training, so that their value as human capital will be improved and the level of the city will be improved as well.

With the increase in the number of skilled workers, the standard of living will also be improved. The income gap stems from the education for the migrant rural laborers, and results in the differences in the level of human capital. Therefore, strengthening vocational education and training is an important method to enable urbanization to develop in a sound way and solve social problems in the process.

The sixth question is to develop a big city or a small town? There are reasons to favor big cities. With the same infrastructure, a big city can accommodate more economic activities and provide more employment opportunities. On the other hand, all township enterprises will either go bankrupt or be relocated to bigger cities, because towns are located in outlying areas where the cost of infrastructure construction is excessively high. The efficiency in all aspects, including that of handling environmental pollution, is higher in a big city. This has been proved through extensive research worldwide.

As a big city is typically crowded, it should depend more on public transport to ease road congestion. If more investment is put into the construction of traffic facilities, the efficiency and the capability of supporting growth in income in a big city are still higher than in a small town with all factors taken into consideration. Therefore, it should become a basic national policy of China to encourage the development of big cities. Many small cities along the coastal regions have developed into big cities. The word "urbanization" is not given up in the Twelfth Five-Year Plan. The prospect of urbanization is most promising in the Pearl River Delta region as the cities in this region are all linked by public transportation facilities. Here, as in other regions, infrastructure plays an important role in the process of urbanization.

The seventh question is the realization that urbanization is a systematic process of engineering that entails overall planning in all aspects, and only through coordination can urbanization (instead of "semi-urbanization") be achieved. One of the advantages of a big city is that the more people are gathered, the better the service industry develops, and the bigger the scale and the higher the efficiency of the service industry in a city, the less necessity exists for people to do housework on their own. In addition, other characteristics of city planning and infrastructure should be taken into account. It should be realized that the running of a city involves the systematic planning of traffic, commerce, environment, public goods, the supply of water and other utilities, refuse collection, public sanitation, and many other factors. The process of planning traffic and easing congestion, developing city infrastructure, and maintaining public order involve a very precise and

coordinated set of systems. One of the most serious defects is the failure to attach importance to the interaction between each link of this system. The tendency is to handle one link at a time, regardless of the effect on the whole system. This generates all manner of friction, often resulting in compounded difficulties and problems at each link. The process of systematic engineering must cover public order, environmental issues, safety and security, health-care, and epidemic prevention or control, all of which need to be guaranteed through the implementation of a series of public policies. In-depth research is needed at each link, but an overall plan is needed.

The eighth question refers to the drafting of a grand plan for the process of national urbanization. As stated previously, urbanization represents a process of population flow. How does the population flow? Where does the population flow from? Where does the population flow to? There are laws behind these questions, and these questions need to be studied in order to avoid costly detours, the waste associated with a large amount of resources and an ineffective level of investment. Under the current Chinese administrative system, each small town is planning to build itself into an "international modern central city," a slogan raised by almost cities. Over the course of the next few years, the population of some cities will fall, resulting in what many predict as "ghost cities of high rises." Objectively speaking, jobs cannot be created in all regions, and not all regions can serve as gathering points for the people to grow into bigger cities in the future. A national plan based on population migration, if completed and put into practice, can form a more efficient and resourceful endeavor than any single project can at present.

China is known for its “whole nation system” under which a plan is drafted every five or ten years. If a national plan on urbanization is formulated, it may result in a positive outcome. At present, the new countryside movement in China should not be launched without careful consideration as to the location. It is necessary to build up the new countryside in regions that are likely to remain as part of the countryside for a longer period of time. However, other rural regions have already been deserted. An appropriate national plan and the formulation of macro policies and regulations are needed, which can enable us to put into better use the limited resources available.

Urbanization is a mega-system, covering every aspect of society including politics, culture and popular thought. During China’s modernization drive, urbanization transforms a nation in its process of human development. There must be both triumph and misery in such a process, which should not be thought as romantic, containing only advantage without disadvantage, or progress without setback, or profit without expense. The process of urbanization is full of contradictions and conflicts. As latecomers, China can do better by drawing upon the lessons learned by its predecessors in the industrialized world. Urbanization used to be a derogative word. It remains a major issue in economics when measuring the happiness quotient of a given population, which is regarded as the benchmark of social progress.



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China's Road to Development

As a matter of fact, China's development road is unprecedented in world history. Since there is no path to follow, China is bound to experience numerous twists and turns as it seeks to find the best path for the future.

“The China Model”

Discussions on the China Model have been going on for a long time, but have become more heated recently. This can be attributed to two major reasons.

The first is the international perspective. China has achieved unprecedented economic growth never seen before in the history of modern economics. Between 1950 and 1973, Japan's annual economic growth rate came close, surpassing 9.29 percent. However, for the 30 years from 1978 to 2008, China maintained a growth rate of about 9.9 percent... Clearly, China's economic growth has exceeded that of Japan in both duration and rate of growth.

The second factor is the domestic perspective. During the 30 years of rapid development, China has made significant progress and, at the same time, is confronted with a number of major contradictions and problems. Against this background, it is necessary for China to slow down and draw conclusions in order to have a better understanding of its own unique development path.

I personally believe that the “China Road” is a better term to describe China's development than the “China Model” because “model” implies something that is changeless, settled, and even rigid while “road” means a path that is not straight, but full of twists and turns, and ups and downs. So

from this point of view, I think that the China Road is a better phrase to describe China's development over the past 30 years, as well as its development since the founding of the PRC in 1949. As a matter of fact, China's development road is unprecedented in world history. Since there is no path to follow, China is bound to experience numerous twists and turns as it seeks to find the best path for the future.



An employee in Changxing Wind Power Technology Co. Ltd, Zouping County, Shandong Province. According to statistics from the Ministry of Agriculture, China's rural enterprises would create over 2.4 million job opportunities in 2010, and the employment figure would increase to 158 million by the end of the year.

There is a view which holds that China's major achievements over the past 30 years can be attributed to its move to a free market economy plus a strong government. This view suggests China has followed other countries in the past and that China has done nothing new. However, in the context of the life cycle of national development, if the major economic indicators of a country account for a rising proportion in world development, it means the country is on the rise and developing. This is highly relevant to innovation. China Road of innovation is characterized by continuous exploration, reflection and innovation.

China's innovations are concentrated in three areas; some with similarities, and others which manifest their own characteristics.

The first is the modernization factors: industrialization, urbanization, and modernization. No country in the world can avoid them on its way to development. China shares some similarities with the developed countries in the West, but also has its own unique characteristics. For example, rural industrialization and vigorous development of township enterprises represent a distinct Chinese characteristic. In the West and other developing countries, rural industrialization is not really highlighted, and their township enterprises are much smaller both in size and number compared with those in China. In China, about 150 million farmers have now moved to towns and cities and become industrial workers.

The second is the socialist factor. Before the founding of the PRC, only the Soviet Union embarked on the path of socialism. However, this only lasted a period of time. As a socialist country, China has passed through six

decades. The advantages of socialism have brought significant benefits to the people, such as decisive decision-making, effective implementation, and mobilization of resources to accomplish major tasks.

To understand this better, we make a comparison between China and India in terms of highway construction. In 1984, the two countries both began building highways after obtaining financial support from the World Bank. China's first expressway was completed in 1988, but in India, the first one was only finished in 1990. During the 22 years from 1988 to 2010, China extended its highway network to cover more than 70,000 kilometers (the length of highway in the US totals 75,000 kilometers), while India has less than 10,000 kilometers. Ten years ago, China imported railway equipment and technology capable of achieving a speed of 250 kilometers per hour, but now the country can export high-speed rail equipment capable of achieving a speed of 350 kilometers per hour. Actually, it was in the early 19th century that China began to promote its railway development - much later than in India. In 1949, the total length of railway in China was only over 20,000 kilometers while that of India exceeded 50,000 kilometers. However, India still has not developed any high-speed railway.

International comparison is a good way to tell which country has done a better job. From this point of view, the significance of socialism is not confined to the ideological field, but is embodied in various other aspects.

Another example is the international financial crisis in 2008, when China rolled out a series of measures and policies. In fact, China was not the cause or the origin of the crisis, but was among the most affected countries. How-

ever, China acted quickly to introduce a 4-trillion Yuan stimulus plan and became the first to achieve an increase in trade and investment across the world. This shows that China's socialism is not simply an ideological factor but its fundamental idea lies in sharing with others.

The third is the Chinese factor. After going through modernization, traditional Chinese culture has become more international. A typical example was the opening ceremony of the 2008 Olympic Games, which presented the world with a wonderful integration of traditional Chinese culture and modern technology. These features of the Chinese culture are a distinct characteristic of China.

Essentially, China's innovation comes from the comprehensive and large-scale, collective, innovative ability of the Chinese people. Without this, there would have been no great economic development over the past 30 years.

In the West, China's development is often simply attributed to a one-party system and a free market economy. If we make some comparisons between China and the Western world, we can gain a better understanding of the difference between the two sides. If we consider the global financial crisis in 2008, China's GDP growth was 9.0 percent in 2008 and 8.5 percent in 2009; that of the USA stagnated at 1.1 percent in 2008 and -2.1 percent in 2009; and that of the world measured 3.1 percent and -1.4 percent, respectively. Facts speak louder than words. It cannot be denied that China has its own institutional advantages, especially when there are unexpected economic disruptions.

China is now on an upward stage of development, just like the Republic

of Korea (ROK) about ten years ago. But the difference is that when encountering a financial crisis, the economy of the ROK ceased to grow and even began to shrink. During the financial crisis in 1997, the ROK Government was unable to independently formulate its own monetary and fiscal policies, while the Chinese Government has always followed the principle of autonomous decision-making in accordance with the market conditions and its own interpretation of the situation.

It should be stressed that various resources can be mobilized in major projects under a socialist system. By effectively providing basic public services and making them equally accessible in different regions of the territory, China can optimize its provision of social welfare. A case in point is the new rural pension system, which began some three years ago and is likely to provide cover for close to 50 percent of the rural population in China by 2016. In fact, even if the coverage only expands to just 20 percent of the population by 2020, such a target would need decades to be accomplished in the West; quite a feat considering the huge population in China's rural area. China, however, plans to take slightly less than 20 years to solve this universal problem. Although the pension system in China, as an institutional arrangement, remains at a relatively low level, this achievement is of historic significance.

At the same time, many of China's practices have actually deviated from the established basic orientation associated with building a socialist market economy. For example, the Government's excessive intervention in the market will lead to price distortions and excessive consumption. In particular, in



Senior citizens of Lishen Village, Zouping County, Shandong Province, receiving their basic pension insurance. According to information from the Ministry of Human Resources and Social Security, by the end of June 2011, 54.08 million people have already received their pension insurance.

the area of utilization of resources like water and coal, no due consideration has been given to the bearing capacity of the natural environment. Excessively low prices did play a big role in stimulating consumption and, at the

same time, caused some thorny issues like high energy consumption and high pollution emissions.

Another problem lies with the primary distribution and redistribution of national income. Income disparities today tend to be widening, and attention to low-income groups is still minimal. Because of this, domestic demand cannot expand efficiently, and this has exerted a negative influence on economic development and distribution of economic benefits. To a certain extent, this has hampered the Government's ability to improve the living standards of the people in an overall and steady manner.

With regard to how to build a socialist country with a market economy – this process requires practice. European countries, the USA, and Japan, are quite different from China in terms of historical background, political and economic systems, and cultures. This means that there is no role model that China can use for reference and China must be a pioneer. In 1992, China announced it would implement a socialist market economic system with Chinese characteristics by 2010; a goal which has now been for the most part realized. However it still needs to improve over the next ten years.

It cannot be denied that the combination of the socialist factor and market economy is really a new departure for human kind. Although there remains insufficient theory, the most important thing is how to achieve an organic integration of the two in practice. This is also a distinct characteristic unique to China. According to World Bank statistics based on 162 countries, in the 30 years from 1978 to 2008, nine of the top ten countries with the fastest economic growth, all drew up and implemented five- or four-

year plans to promote their economic and social development. This is not a coincidence. Furthermore, the coefficient of economic growth fluctuation in these countries is also relatively small. The “Five-Year Plan” is an indispensable part of economic planning especially for a large developing country like China.

The former Soviet Union countries and Eastern Europe, abandoned the five-year plan after they disintegrated. However, in China, since the introduction of reform and the opening-up program, the former method of economic planning wasn't discarded, but rather upgraded into a more macro set of guidelines. China's Five-Year Plan was a mandatory plan when it was created in 1953. In 2006, the 11th Five-Year Program was redesignated as a strategic developmental plan and was essentially different from the one created in 1953. In the 11th Five-Year Program, many specific economic indicators were discarded and more emphasis was placed on offering market-friendly services, and encouraging the development of the market. This is meant to create a better information and investment environment for the smooth development of the market.

Both planning and the market are economic means, rather than objectives. Their ultimate goal is to maintain a high rate of development and achieve widespread prosperity. Virtually all the economies in the world are based on a mixed model and have two invisible regulatory hands. An economy is similar to an organism or a human body. Obviously, having two hands is more convenient than having just one hand. Of course, both hands have different functions and shoulder different tasks. How to combine the two

hands and make full use of their advantages, and minimize their disadvantages, will be explored in practice. From this point of view, China has always persisted in making use of both hands in the process of reform and exploring how to use them in the most effective way.

When the Chinese Government decided to build a socialist market economic system in 1992, it didn't abandon macro-control over the economy, but continued to explore and redefine the four major functions of the government: economic regulation, market supervision, social management and public service. In this way, the Chinese Government has used two hands to promote its development. In the 11th Five-Year Program, there were 22 key indicators vital to the state. They were referred to as anticipated targets. In addition, the Program indicated 11 public service areas the government should be committed to and 17 priority areas to be supported by public budgets. Public service areas and priority areas of public financial support will be further improved in the 12th Five-Year Program period. These two big areas are equivalent to the two hands of the government.

Theoretically, two hands are better than one. But there are still many challenges in practice. How to better use the two hands still needs practice and study. Moreover, different countries may employ different models for development, such as the American model, the Western European model, and the Nordic model. Now, China is trying its own development path. Deng Xiaoping once said there is no one model that suits all, but rather a development path that must be tailored to a country's own conditions, so China should go its own way. It has been proven that sticking to the road

with Chinese characteristics is also a successful road.

Stability is another key factor in China's 30 years of stable and fast development. Its First Five-Year Plan was a great success. The economic growth rate rose to 9.2 percent, increasing the economic aggregate of the country from 4.5 percent of the global total to 5.5 percent. Unfortunately, in subsequent years, the country suffered a big setback because some leaders in the Central Government were too eager for quick success and launched the Great Leap Forward. Since then, maintaining stability has been of overriding importance over the past decades. This is also a lesson that can be learnt from the Soviet Union. In 1989, China's GDP was roughly equivalent to that of Russia. But if calculated on the basis of purchasing-power parity (PPP) today, it is about 5 times bigger than that of Russia.

I prefer the term "China Road" instead of "China Model" because China still needs to continuously explore by way of "groping for the stones while crossing a river." There remains a lot of uncertainty inside and outside the country. This means that if stability can be maintained, China's best route towards development is to grope for the stones, step by step, as it is the best way for China to minimize risk and cost in promoting development.

The First Five-Year Plan is officially known as the "Five-Year Plan for the National Economy," a title which was used until the Fifth Five-Year Plan. From the Sixth Five-Year Plan on, the official title was changed to the "Five-Year Plan for Economic and Social Development." Socialist modernization was thus also expanded from economic modernization to economic and social modernization. In the 11th Five-Year Program, for the first time, a

blueprint for the coordinated development of socialist economic construction, political construction, cultural construction and the building of a harmonious society, was officially put forward to facilitate China's socialist modernization drive. From the four modernizations advocated by Mao Zedong and Zhou Enlai, to the modernization drive characterized by ideological construction, organizational construction, work-style construction, institutional construction and the combating of corruption and building a cleaner government, the Chinese people have gained a deeper, more coordinated and comprehensive understanding of what China's socialist modernization means. In the meantime, these measures prepare the groundwork for achieving the goal of socialist modernization in the first half of the 21st century.

There is a popular Chinese saying that goes, "haste makes waste." This is an important principle for China to follow in promoting development, as well as a lesson learnt from the Great Leap Forward movement in 1958.

China's stability is best seen in the following five areas: economic, political, social, ecological and international.

First, from the economic perspective, to emphasize not to repeat mistakes like the Great Leap Forward and avoid sharp fluctuations in economic growth so as to ensure macro-economic stability.

Second, from the political perspective, to focus special attention on preventing serious mistakes in political decision-making like the "Cultural Revolution" and political upheavals seen in the demise of the Soviet Union and Eastern Europe.

Third, from the social perspective, to resolve social contradictions using



As the first step in rural economic system reform, the household contract responsibility system has been promoted since 1982 in China's vast rural areas. Here, farmers use farm machinery to harvest their contract farmland.

In 1986 China launched reform of state-owned industrial enterprises. This is the First Automobile Works plant in Changchun City, Jilin Province. The corporation has built a sedan-dominated production line and expanded international cooperation. Its annual production volume has increased from 30,000 to one million.



In 1993 China set forth the goals for financial system reform and a new financial market system was established. Financial Street in Beijing embraces over 500 key financial institutes and renowned enterprises from home and abroad with daily working capital of over 10 billion yuan.

The new cityscape of Suzhou City, Jiangsu Province. In 2002 China set forth the goal of building a comprehensive and moderately prosperous society. Construction of urban infrastructure and cultural facilities has been promoted and encouraged. Urban facilities and living conditions have dramatically improved.



the principle of overall coordination by maintaining social stability and promoting economic development.

Fourth, from the ecological perspective, to attach more importance to environmental protection. During the period of the Great Leap Forward, China cut down forests in order to plant crops, opened terraced fields on green mountains, built furnaces in backyards to smelt steel, and later reclaimed farmland from lakes, rivers, and the sea, causing great damage to the natural environment. Thus, it is very important for us to keep the ecological environment stable.

Last, from the international perspective, to avoid interference in the internal affairs of other countries and work hard to create a peaceful international environment.

If stability cannot be ensured in any of these five perspectives, there will be serious consequences. The Chinese people have a long memory, and cannot afford to repeat the historical mistakes of the past.

For all these reasons, experience gradually comes as one travels the road of development in this country. "Crossing the river while groping for the stones," actually represents a methodology of socialist modernization with Chinese characteristics.

On the “12th Five-Year Program” (2011-2015)

In the past 30-plus years since the introduction of the reform and opening up policy in 1978, China has maintained relatively high economic growth and this has attracted worldwide attention. However, at the same time, some issues which are vital to people's livelihoods and well-being have been dwarfed by the impressive economic development, and even become increasingly prominent. These, nevertheless, will inevitably exert a negative influence over the reform, while the reform itself is losing momentum with the driving force behind it beginning to weaken. A reform stalemate has actually been created as a result.

Thirty years of rapid development have helped China go from a country with a very low average income to one with a middle-income (per-capita GDP is between US\$1,000 and US\$10,000). However, the country may also run into what is called the “middle income trap.” In the typical period of the middle income trap, the prices of various commodities increase. Neither a large amount of production input nor extensive exports can make the economy continue its high growth. Furthermore, various interest groups have become further divided, different kinds of social contradictions have come to be increasingly obvious, social cohesion has declined, and environmental pollution has become a hard nut to crack. The less-than-satisfactory

market mechanism, the imperfection of public policies and laws and regulations have led to inequality of opportunity which becomes a major obstacle to the economic and social development of the country.

Given these warnings, China has to take the initiative to change its transformation and actively navigate a course through the crucial times. The two major issues are reform and development mode. Efforts should be made to get rid of the dependence on reform and achieving transformation by simply focusing on economic development and move towards the provision of public services and expanding domestic demand. Efforts should also be made to further transform the mode of development and boost domestic demand so as to narrow the gap with developed countries. To achieve all these aims, it is necessary to further promote reform through a new round of opening up.

It is against this backdrop that the new “12th Five-Year Program” set forth “sharing” as the main target, the main principle and basic idea of development. Its main content includes three aspects: (1) common development, i.e., the state should provide equal opportunities for development for all people and regions; (2) sharing, which means that all Chinese people can share the benefits of the reform and opening up in the past 30 years; and (3) common prosperity, which is meant to avoid any gap between the rich and the poor. Thus it can be seen that “sharing” contains a higher vision of economic and social development.

In the bulletin for the 12th Five-Year Program, when speaking of the domestic and international situation in the next five years, the Chinese Government has said that China’s development is still in the midst of an im-

portant period of strategic opportunities, offering not only a rare historical opportunity, but also posing many predictable and unpredictable risks and challenges. This is in line with the mode of challenge and opportunities. Although it didn't specify the challenges and didn't mention which are foreseeable or unforeseeable, China will take the initiative to meet these challenges and try to create new opportunities from these challenges.

The next five years will be a crucial time for China in its goal of building a moderately prosperous society, which is scheduled to be achieved by 2020. In terms of economic development over the next five years, priority will be given to resolving the widening gaps or imbalances.

The first is the widening gap between the human and nature. According to the State Plan for Medium- and Long-Term Development of Energy formulated in 2004, total energy consumption is planned to reach 3 billion tons of standard coal by 2020, but in 2009, it already reached 3.06 billion tons – 11 years ahead of the projected schedule with an obvious consequent spike in carbon dioxide emissions. China has more carbon emission than the USA and EU, and this is a big constraint and challenge. Frequent natural disasters are warning us that the gap between the human and nature is rapidly widening, and becoming an urgent and prominent issue for China and the world.

The second gap is between various groups of people in China, such as those in rural and urban areas; people in the coastal areas and inland regions. But, a positive note is that when measured on the basis of the fixed price-per-capita GDP, regional disparities in China, which reached a peak in 2004,

have begun to decline continuously.

The third is between China and the world, which reflects the world's trade imbalances and imbalances in economic development. China is a major exporter in the world, but not the largest importer in the world. How to solve the trade imbalance between our country and others? This is a serious problem.



Loading export containers on an international ocean-going vessel at Ningbo Port.

From this point of view, the 12th Five-Year Program period will be full of variables.

First, China may fall into the middle-income trap if the government cannot direct its economy towards a more sustainable path.

Second, China may enter a period of reform fatigue. After a fairly long period of reforming, profit margins of some reform measures have already started to decline and some new interest patterns have begun to take shape. This is one of the reasons that many of the reform measures in the 11th Five-Year Program were not fully implemented or not completed at all, a clear indicator of reform fatigue to the Chinese government. As a matter of fact, the reform leads to adjustments to the interest groups which, in turn, begin to resist violently. To maintain social stability, reform has to be shelved or even suspended for a period of time.

Third, it may be a period in which opening up will grind to a halt. When China gained access to the WTO ten years ago, it significantly reduced tariff rates and removed most non-tariff trade barriers, thus making the transition to a fully-open era from a semi-open one, and enabling China to become the world's largest exporter and second-largest importer in 2010.

However, China's tariffs and tariff rates have not been dramatically reduced afterwards, which made it impossible for the country to become a world market either. The tariff rate in the USA is merely 2-3 percent, on average. So products from across the world are available there. If China further lowers its average tariff rate to 5 percent, or even to 2-3 percent, it will naturally become the world's largest import market. In this way, China will be

able to maximize the benefits and consumer surplus for its huge population. So it is necessary to further promote reform and open wider to the outside world. This could perhaps be dubbed a second accession to the WTO.

In the 1990s, China bargained with other countries to join the WTO. However, today, to accelerate the development of services trade, China has to unilaterally reduce its tariff rates and phase out a certain number of non-tariff trade barriers to attract foreign capital into the service industry. In particular, it wants to attract capital to the knowledge-intensive modern service industry. In the 11th Five-Year Program, China set a target of US \$400 billion of output value in service trade in 2010. But, in fact, the service trade in 2010 exceeded US \$300 billion only, far below the target. Such a result is highly relevant to the service sector which is not open enough and has no effective measures in place. So, this sector is of a great potential. But its development will proceed only with constant innovation, which, I am sure, will also create more jobs.

It's widely agreed that China's achievements, made in the past 30 years, should be attributed to the reform and opening-up. However, if we make a quantitative comparison, we'll find that the returns from opening-up are far more than the returns from domestic reform. This is because domestic reform always pays a fairly high price by readjusting various interests groups, and quite possibly causing social conflicts and unrest. Opening-up, however, is quite different, as it brings in a new world, costing much lower. After the accession to the WTO, for example, China's auto industry didn't collapse as many people had predicted. On the contrary, the country has developed into

the world's largest auto manufacturer and consumer. China's banking industry, as another example, is now listed in the world's top 10, instead of going bankrupt as some had worried. All of this shows that with further reform and opening-up, there will surely be many challenges to cope with.

When looking back at that period of history, we find that most predictions on the costs and risks of China's accession to the WTO were inaccurate. A fundamental reason behind that is they forgot a famous saying of Mao Zedong: "It is the people and the people alone, that are the motive force in creating the history." The Chinese people, including farmers, have a strong ability to learn. In the competitive process, they can constantly learn, make adjustments and improve their competitiveness. This is why China has succeeded since joining the WTO.

The three imbalances, or overall instability, will affect China's sustainable and coordinated development, thus becoming the key issues that need to be addressed during the 12th Five-Year Program period. For this reason, in the official bulletin on the 12th Five-Year Program, the Chinese government put forward five basic principles for the transformation of its economic development mode. These are, namely: insisting on economic strategic restructuring as the main direction; scientific and technological progress and innovation as an important support; improvement of the people's livelihood as the final goal; construction of a resource-conserving and environmental-friendly society as the main focus; and reform and opening up as the powerful driving force. These five principles are hoped to make development more comprehensive, more balanced and more sustainable.

These principles are of the utmost importance for China, a country which has over 2,000 county-level units, more than 300 prefecture-level units and 30-plus provinces, autonomous regions, and municipalities directly under the Central Government, and special administrative regions. It is moreover a country with 1.3 billion people and 56 ethnic groups. Following these principles, China's development will not only advance in a fast, open and modernized way, but will also proceed in a coordinated and sustainable fashion.

"Accelerating the transformation of the economic development mode is a profound reform in our economy and society, which must run through the whole process of the economic and social development and all relevant fields." Development will inevitably cause transformation, while transformation also means development. From the historical perspective, China's fastest growing period has also witnessed its fastest social transformation. Moreover, the successful social transformation also enabled its economic development a big success. In addition, "speeding up the transformation of the economic development mode also represents a new understanding of China's development and transformation, as well as a new action taken in terms of global transformation in the era that will come after the international financial crisis."

China's transformation of its economic development pattern has a positive significance for global economic transformation and provides one of the most powerful impetuses for it. To respond to the international financial crisis in 2008, China first introduced the 4-trillion-yuan "New Deal" to stimulate domestic demand, and the country successfully took the lead in re-



July 20, 2011: Shenbei New District of Shenyang City was officially titled "National Ecological Zone" at the National Exhibition on Achievements in Building Ecological Civilization held in Guiyang.

viving its economy and in adjusting its trade structures. China, meanwhile, increased its imports, greatly contributing to global economic recovery and balances. During the 12th Five-Year Program period, if China can continue this transformation in accordance with the orientations mentioned above,

both the imbalances in the domestic economy and international trade will be greatly relieved.

China will be confronted with many new challenges and problems in the 12th Five-Year Program period, on the basis of the objectives set out in the 11th Five-Year Program which was characterized by an integration of the construction in socialist economy, politics, culture and society. The recovery of its ecological balance has been added to the 12th Five-Year Program. Furthermore, the Party (Chinese Communist Party) building, as an important political means for achieving these targets, has an important position in the 12th Five-Year Program. This shows that the Chinese government has gained a more comprehensive understanding of the concepts of socialist modernization, and has gained new insights into the overall layout of the national development plan and structural reform as a whole.

Meanwhile, more reform measures will be rolled out in the 12th Five-Year Program period. Take the relationship between central and local governments, for example. In the past, the central government always took more resources from the local, but gave relatively less. This caused dissatisfaction among local authorities and deviations in the effectiveness of policy implementation. In 1956, Mao Zedong mentioned in his writing *On the Ten Major Relationships*, "Both the central and regional initiatives should be brought into play." An economy is just like a human body. Two hands definitely work better than one hand. Similarly, the initiatives of both the central and local authorities should be taken into full play, instead of merely one of them. This is what is called an "incentive compatibility mechanism" in economics.

After comparing the five-year plans formulated by the central government and those by the provincial governments since the Ninth Five-Year Plan period, my colleagues and I have found that “giving full play to the initiative of both the central and local governments” has always been the main trend and it is now becoming more and more prominent. When listing national development targets and provincial targets, we find that their matching ratio has been increasing from less than 70 percent years ago to over 80 percent at present. This means that the national development goals are getting closer to regional goals, and vice versa. Moreover, we also noticed that where there is a higher matching ratio of development goals of both the central and local, there is more successful overall development.

Meanwhile, the central government has also provided more help to the regional governments in order to achieve national development targets. For example, the reconstruction of the Sichuan Earthquake area was granted to the local government. The three relevant provincial governments made their plans, while the central government made out its plan arranging aid from other provinces, cities and the ministries.

Transforming the strict mode of administration prevailing in the period of the planned economy will effectively stimulate the enthusiasm of local governments. The central government only needs to maintain responsibility for reviewing and evaluating the performance of local officials. In terms of distribution of tax revenue, the 11th Five-Year Program period witnessed major progress, i.e., transfer of payment has been achieved from provincial-level government to government at the county level, rather than being just

limited to a transfer from the central government to the government at the provincial level. This lays a foundation for direct transfer of funds from the central government to county-level authorities in the future. When



The special ecological environment in the Sanjiangyuan area is of great importance to China and East Asia. To protect the area, the Chinese government established Sanjiangyuan Nature Reserve, covering a total area of 362,000 sq km — almost half of Qinghai Province. It is the largest nature reserve and the highest natural wetland in China.

the transfer of funds is realized from the central government to the county government, more public finance expenditure will be directly available for grass-root governments, and this will improve their ability to provide public services. In this regard, much exploration still needs to be made. But the general concept is "giving full play to the initiative of both central and local." This will help cement the joint efforts of both central and local authorities. The joint efforts will be used to provide public services for the 1.3 billion Chinese people who live on the 9.6 million square kilometers of the territory, rather than simply focusing on GDP growth.

For example, during the 11th Five-Year Program period, in the region of the Source of the Three Rivers, GDP was no longer considered the key indicator for evaluating the performance of local officials and of determining local revenue. Priority had been given to local ecological indicators. These days the ecological environment of the Source of Three Rivers had improved greatly. A prominent indicator of this was that its annual runoff had increased substantially, and sand content in the water was decreasing. The Source of the Three Rivers is not only China's "water tower," but also that of all Asia. It not only belongs to China, but also belongs to Asia and the whole world.

During the 12th Five-Year Program period, according to the development needs in the main areas administrated by different regional authorities, the central government will put in place a more diverse set of evaluation standards, and take public service level as an important yardstick for judging the performance of officials in many areas, instead of just focusing on

GDP growth. GDP has been adopted as a yardstick to examine development for over 30 years. Now China introduces public service as a yardstick. In this way, regional competition will focus on providing better public service for the masses, rather than merely on increasing GDP. This represents an important transformation in the development pattern emphasized by the Chinese government, and will change the previously not-so-benign competition among different regions into a decidedly more benign one. For instance, GDP is no longer a development standard for Chongqing City. As it is located near the area of the Three Gorges reservoir, the local development targets instead focus on reducing pollution and soil erosion and expanding forest coverage.

In fact, the percentage of economic targets in China's five-year plan has been dropping since the Sixth Five-Year Plan (1981-1985). The percentage of GDP indicators in terms of total economic yardsticks fell from 60 percent in the Sixth Five-Year Plan to 22 percent in the 11th Five-Year Program (2006-2010). The corresponding percentage is less than 20 percent in the 12th Five-Year Program. At the same time, the proportion of public service indicators or non-economic indicators, in terms of total development targets, will jump from 40 percent at present to 80 percent in the coming five years. In economically developed areas, like Beijing and Shanghai, public service indicators have surpassed 90 percent. This shows that primary-level organizations are giving less attention to economic targets but more to public service instead.

The transformation of the Chinese government is progressing based on

the methodology of “crossing the river by groping for the stones.” In any case, the general direction is very clear, namely: transforming the government from one focused on economic growth to one committed to providing public services and administering regulations according to the law.

The 12th Five-Year Program period is a historic period on China's road of development. Its basic task is to lay a solid foundation for building a moderately prosperous society in all aspects by 2020. All the Chinese people are really fortunate to live in such a brilliant era.

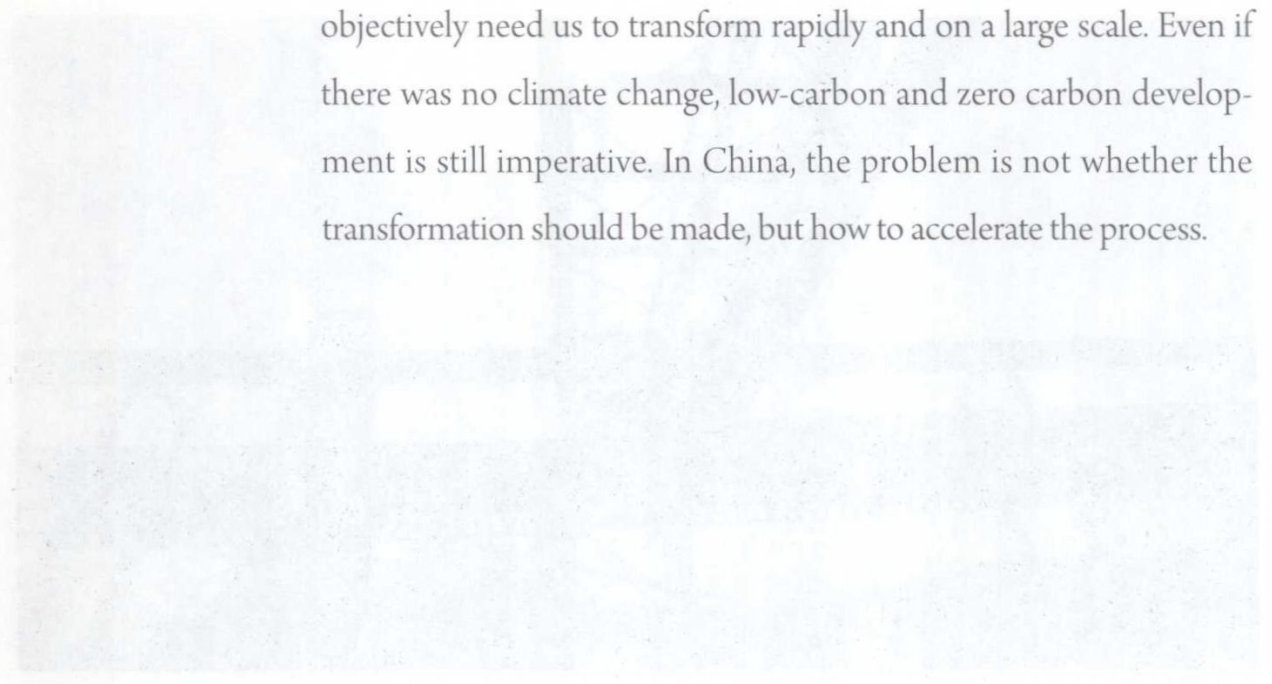


Pan Jiahua

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China's Low-Carbon Transformation: Driving Forces, Challenges, and Paths

Energy security, environmental protection and sustainable society objectively need us to transform rapidly and on a large scale. Even if there was no climate change, low-carbon and zero carbon development is still imperative. In China, the problem is not whether the transformation should be made, but how to accelerate the process.



China is aware of its large amount and high rate of growth in greenhouse gas emissions. While it has made substantial and successful effort to reduce its emissions, there remain a great deal of suspicions, misunderstandings, and misinterpretations among the international community about China's willingness to address these issues, the action it has taken, and its ongoing effort in mitigating climate change. There is a need to understand that China's control of GHG emissions is not merely for the sake of climate mitigation, but also for strategic domestic concerns such as energy security and sustainable development.



August 9, 2011: Xie Zhenhua, Deputy Director of the National Development and Reform Commission, announced that the goals for energy conservation and emission reduction in the Twelfth Five-Year Plan had been issued, and that local governments that failed to fulfill the tasks would be sanctioned.

Low-Carbon Transformation: Process and Necessity

Under the target of a global 2°C temperature rise limit, sustainable growth requires a decrease in carbon emissions. To apply Scientific Outlook on Development in China, and to achieve low-carbon growth, the great green transformation has already been on its way, and the process is being accelerated.

First, from a strategic point of view, China's low-carbon development is not merely in response to global climate change or for the sake of GHG emissions reduction. It is also a necessity for sustainable development, energy security, and environment and ecological protection. China's fossil fuel reserve is characterized by a lack of oil and gas, but with relatively rich deposits of coal. Automobile ownership in China was 50 per thousand people in 2009, only 1/15 of the ownership rate in the United States and 1/10 of that in the European Union and Japan. Conversely, China's import of oil exceeded 204 million tons in 2009, which accounted for more than half of its total oil consumption. According to the statistics from British Petroleum,¹ China's proven reserves of oil could only support approximately 11.3 years of consumption at the current rate. Global oil reserves could meet global consumption at the current rate for 42 years if the storage-production ratio maintains unchanged. The Deepwater Horizon disaster of 2010 in the Gulf

of Mexico has been calculated as shortening global reserves by 2.43 years.² Even if China could purchase oil unrestricted in the global market, there could be no oil left by 2050, which could spell disaster for China's up and coming transportation and road system. The storage production ratio of natural gas in China is three times higher than that of oil, which could only support 32.3 years of consumption and is just half as much as the global rate of 60.4 years. China's coal reserves are relatively rich, though if the storage to production ratio maintains the same, its holdings could support approximately 41 years of consumption, which is 1/3 the global rate of 122 years. China had become a net importer of coal in 2009.³ Even if China imports coal from the global market, it could only prolong consumption to perhaps 100 years. We know that storage production ratio is dynamic, however, even if the proven reserves increase, the ratio could not increase infinitely because of the geophysical limit of the planet. China's Yumen Oilfield is nearly completely drained, and the Fushun Coal Mine in Liaoning has been depleted, too. More such cases are expected in China, with huge pressure on local economy and employment. A big population of 1.3 billion, large-scale economic growth, and huge demands for energy and natural resources make it impossible for China to totally rely on the global market. In addition, the hazards of coal exploration can destroy groundwater systems, resulting in geological accidents and tragic loss of life in recent years. The burning of coal emits sulfur dioxide, nitrogen oxide, and produces heavy metal mercury, toxic dust and toxic solid waste, which incurs substantial environmental clean-up costs. Energy security, environmental protection and sustainable society

objectively need us to transform rapidly and on a large scale. Even if there was no climate change, low-carbon and zero carbon development is still imperative. In China, the problem is not whether the transformation should be made, but how to accelerate the process.

Second, China announced to the international community that, by 2020, per unit GDP emission of carbon dioxide would be lowered by 40-45% from the level of 2005; and non-fossil energy would consist of 15% of primary energy consumption. Together with the targets of forest carbon sinks, these are the operational targets for China to achieve low-carbon growth. The goals above are hard to achieve with strong rigid constraints in China. Carbon intensity targets count carbon dioxide from fossil fuel burning only, and it does not include other GHG. The energy savings target is set to reduce energy intensity by 20% during the 11th Five-Year Plan (2006-2010), and further reductions will be increasingly difficult. However, it is clear that China's 12th Five-Year Plan (2011-2015) will include GHG emission targets. Disaggregation of such carbon targets will be made into individual provinces and key sectors. Up to now, numerous programs have been initiated, such as low-carbon cities, low-carbon communities, low-carbon enterprises, and low-carbon consumption across the spectrum of society. The voice of China's low-carbon transformation is louder than that of other developed countries. China's wind power and solar power industries have a higher growth rate than that of most developed countries.

Third, China's low-carbon transformation needs international collaborative effort. As a developing country, China's energy consumption and carbon



The Irtysh River valley in Burqin County, Altay City, Xinjiang Uygur Autonomous Region has abundant wind power resources. Developing wind power provides clean energy for local economic development, and offers significant protection to the ecological environment of the Irtysh River valley.

emissions are expected to increase in the future. Any further increase would be a challenge to controlling global GHG emissions. Thus, it is clear that China's own efforts are not sufficient and global cooperation is needed. In this regard, capital is somehow not so important as it has been thought to be. China has its own financial resources, while developed countries may have more solid capital. If sufficient capital could not transform developed countries into low-carbon economies, the task must be more difficult for a developing country like China to lead such transformation even though there is no lack of finance. Technological cooperation seems rather more im-

portant than money. Technology could direct China's transformation toward a low emissions path, but more importantly, the developed countries should set a good example first. If developed countries could be able to maintain a high living standard with low-carbon emissions, there would be no excuse for developing countries not to follow.

China's low-carbon transformation is an urgent one. China has already made great efforts to accelerate the process of this transformation. Among the actions taken in China include the promotion of low-carbon consumption, construction of low-carbon cities, acceleration of the process to greatly reduce or eliminate altogether fossil fuels, and a public information campaign promoting zero carbon emissions in society.

Low-Carbon Transformation: Levels and Stages

Reducing carbon emission intensity in China is a relative target. Even if carbon emission intensity is reduced by 45%, China's GHG emissions would still increase by 60% given the rate of GDP growth at 10%. Does this contradict to the global 2°C target?

A low-carbon transformation should be adapted to China's development stage. Mitigating carbon dioxide emissions per GDP by 40-45% in 15 years (2006-2020) seems to be rather an ambitious and difficult mission for China, as no country in history have ever accomplished such a feat, let alone the fact that China is experiencing a critical period of industrialization and urbanization. The Chinese economy has been growing by 10% every year on average during the past 30 years of reform and opening up. The process has now shifted from one of labor-intensive to one of capital-intensive industrialization. In 2009, China's raw steel output reached 570 million tons, cement 1.65 million tons, which account for about 50% of global production in these industries. The production capacity is at or close to saturation. As a result, the growth rate of the Chinese economy would slow, thereby making the likelihood of reaching the 10% annual growth rate difficult. Germany, by comparison, has a growth rate which is relatively stable at about 2%. The space for physical expansion of the economy is limited in Germany, and the quality of living is materially limited for further enhancement. Germany's economy could no longer grow as fast as before in its industrialization period or as developing economies. Furthermore, China's transformation has turned out to hit a level of quality improvement rather than quantity expansion. The share of the manufacturing sector in the economy will surely decline, while the service sector would rise. Therefore, as the Chinese economy continues to develop overall, GHG emissions will surely increase, but the rate of increase will be much lower than 10%. China is agreeable with the 2°C target, and has pledged to work together with the international community



Public bicycle rentals are promoted in many Chinese cities as a "green travel" public service program advocated by the government. This economical, convenient and eco-friendly means of travel is popular among urban residents. These are public bicycle rental stands in Fuzhou.

to achieve this goal.

In negotiating the Copenhagen Accord, China did not accept the long-term emission reduction targets, such as reducing emissions by half by 2050. Why is this? There are a few reasons behind this, namely, the arbitrary "50% by 2050" which has no scientific or legal precedence. A medium target should be agreed upon and made compatible with a long-term target, but the developed countries have not committed their reasonable medium-term

target for 2020 yet, let alone 2050. Some countries have already set a medium target, but such reduction is not sufficient to achieve a 50% reduction by 2050. Without even a 2020 target, it would be unreasonable for a 2050 target to be proposed. In addition, the relationship between the 2°C target and the 50% reduction target is further complicated by scientific uncertainty, which needs further study before a definitive statement can be made. Also, there is a degree of fairness to be considered. Up to now, emissions in developed countries and developing countries are 50%. If developed countries could achieve their emissions reduction by 80% from the level of 12.6 tons per capita, there would be 2.5 tons per capita left in 2050; if developing countries could be able to achieve the emission reduction by 20% from the level of 2.6 tons per capita, there would be only 2.1 tons left in 2050. It is obviously unfair. If we are not following the Grandfather Principle to achieve a proportional reduction, but rather the "Historical Cumulative Emissions per Capita Principle" to allocate carbon emissions quotas, the process would be fair and reasonable. In this way, the preservation of human rights in developing countries could be secured, and developing countries would approve a proposal to reduce emissions by 50% by the year 2050.

The Dilemma of Transformation: Subsidizing Low-Carbon with High-Carbon Actions

The low-carbon transformation in China is in need of capital and technology. The transformation to zero carbon emissions can only be achieved through ongoing research and development. No one, however, could argue going back to a traditional, agrarian society, in which carbon emissions were near zero but the quality of life was low as well. Industrialization and urbanization processes are characterized by the accumulation of energy intensive capital projects such as urban infrastructure, housing construction, etc. Under current economic and technological conditions, the comparative advantages of fossil energy are clearly superior to other energy sources. If we instantly turn low-cost fossil energy to high-cost renewable energy, the urbanization and industrialization processes would surely be slowed and its transformation prolonged. Living conditions could not be enhanced to a level comparable with other developed countries. Moreover, renewable energy development requires investment of a large amount of capital and technology. Where does the money come from?

An old saying goes: "Wool has to come from the sheep." The subsidies for renewable resources in developed countries come from fossil energy taxes. If electric vehicles are developed in China, there will be a need to raise a large

amount of funds through taxation of ordinary car users. If there are only 1 million cars and we charge 1,000 RMB per car, there would only be 1 billion RMB. Using this money to support R&D and subsidize electric cars, such an amount would be like a drop of water in the ocean. If there are 100 million cars and the amount of 1,000 RMB per car is still assessed, there would be 100 billion RMB to develop and promote R&D and subsidize electric cars. Therefore, it is unrealistic and unnecessary to achieve zero carbon emissions all at once. This is a basic dilemma in the transformation process to zero carbon emissions: low-carbon industries require support from high-carbon industries. There must be, however, a cap set on high-carbon emissions development, while there also should be a clear target for low-carbon emissions development. This should be the path toward achieving the low-to-zero carbon emissions transformation.

Due to the international financial crisis, the European PV (photo-voltaic) power industry was forced to reduce its scale of subsidies. Germany takes the approach of providing "cross subsidy," using the money from cheaper high-carbon coal, electricity or "non-environmental friendly" nuclear electricity to subsidize expensive wind power and PV power industries. If the percentage of industries supported becomes too high, or the scale becomes too large, the risk of raising sufficient money to offset the increased retail price of electricity must be weighed against the potential for social and economic instability as an undesired result. For example, the feed-in price for wind power on land is 9 euro cents per kwh and 14 euro cents for offshore wind power in Germany, which requires cross subsidies from cheaper sources such as coal and

nuclear plants. The feed-in price for solar PV power is set at 40 euro cents per kwh, and the price might be reduced to 35 euro cents. The protocol of a feed-in tariff is 20 years and the power companies could only pass the costs on to consumers. Such issues have already led to a lot of problems. In the early 1990s, China made a levy on electricity consumption at 0.03 cents per kwh for cross-subsidizing the construction of the Three Gorges Hydropower Base. According to the Renewable Energy Law published in 2006, there are



A 4.7-MW photovoltaic solar-power generation program designed and built by China Aerospace Science and Technology Corporation (CASC) provides green and clean energy for the Shanghai World Expo Park. These are the solar panels on the top of the expo center building facing the China Pavilion.

also subsidies to wind power and solar power industries. For example, solar PV power enterprises could get a subsidy of 20 RMB per watt, which means 20,000 RMB per kilowatt. However, compared to thermal power capacity installation costs at around 6,000 RMB per kilowatt, we could not judge the level of that subsidy as low. The official PV electricity price is regulated by the government as five times higher than thermal power electricity. A even more substantial subsidy on a larger-scale places real limits on financial capacity.

Developed countries have been debating nuclear power since its inception. The Japanese nuclear disaster of 2011 has further shaken worldwide opinion concerning nuclear safeguards. The United States Senate put forward and discussed the American Power Act in June of 2010, during which time they clearly asked for restarting the procedures of approval and construction of nuclear power stations controlling GHG emissions. The German Green Party insists that they should accelerate the process for phasing out nuclear power and abandoning its development. However, people in the fields of energy and economics in Germany have different considerations. Even if wind power could take the place of nuclear power, there exists a problem of transmission between power grids. Large scale wind power in Germany could only be located in the northern sea areas. Besides the high costs, the key problem is how to transmit the electricity to southern electric load centers. The experience of China's long distance electricity transmission makes it rather easy for transmitting electricity over such distances. For example, the electricity produced in the area of the Three Gorges can be trans-

mitted for 1,000 kilometers to the cities of Shanghai in the east and Guangzhou in the south. But things are much different in Germany. The German people are against the construction of transmission lines. Thus it would be impossible to transmit electricity over long distance in Germany without the acquiescence of the people.

The dilemma of the low-carbon transformation is universally significant. The development of renewable energy and the status of nuclear power are under more critical scrutiny in developed countries. This is the reason why developed countries are apt to remain conservative about any emissions reduction figures. China is a developing country with limited capital and technology to cope with the pressure of “high-carbon for promoting low-carbon.” This means China would have to experience a high-carbon development stage in order to accelerate its low-carbon transformation.

Conclusion and Policy Implications

As we have seen, China's low-carbon transformation and utilization of renewable energy is imperative. China needs to undertake such a transformation within an environment of international understanding

and collaboration. Positively publicizing China's effort and performance in energy saving and emissions reduction, while eliminating misinformation and misunderstandings in many parts of the world, is indeed necessary and urgent. China must take the initiative in establishing international discourse as well as countering signs of overt negative bias within the international media. China should vigorously invest in R&D but should not widely subsidize the exploitation and utilization of renewable energy. China should not use the money of taxpayers to subsidize individual consumption, including subsidies to solar PV power enterprises, where "cross subsidies" are advisable in both theoretical and practical applications. China should be mindful of the relationship between high-carbon promoting low-carbon and the extent to which such relationship is carried. China's ongoing research into nuclear energy, nuclear raw materials, energy safety, environmental protection, and project safety, are paramount.

For saving energy and lowering carbon emissions, China should take a strategic view to create and enhance the overall level of low-carbon productivity and competitiveness. Given China's background of development in recent decades, the "transformation dilemma" exists objectively in an atmosphere of China's prudent devotion to its commitments and its active involvement on the world stage.

Notes

¹ *BP Statistical Review of World Energy*, June 2009.

² Some proven deep sea oil holdings remain unexploited for reasons of security.

³ In 2009, China imported nearly 0.103 billion tons of coal; the estimated net import in 2010 is 0.17 billion tons, which will make China the largest importing nation in the world. Xiao Ming, Li Lun: *21st Century Economic Report*, Beijing, July 8th, 2010, 22:34:07.



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China and the World in the Next Decade: Perspectives and International Politics

With internal affairs high on the agenda, it is of great necessity for China to strike a flexible balance between its national interests and international responsibilities and between self-development and a win-win development strategy with other countries, and in turn to push the relations between China and the world towards peace and cooperation. This is not only to safeguard the national interests of China, but also determine whether China can provide new options to solve global problems.

The most important element of the new changes occurring in Sino-U.S. relations is certainly not mutual enmity but cooperative, rather than confrontational, competition between the two countries. This element has never been more considerable regarding China's rise and U.S. recalibration of its strategic and economic gravity over to the Asia-Pacific. As Hillary Clinton unambiguously states, "harnessing Asia's growth and dynamism is central to American economic and strategic interests, and a key priority of President Obama."¹ On the other hand, China's rise and its ensuing prowess, despite mostly nascent, might drive Beijing into new policy propensity of "assertiveness".² Hereby China and U.S. seem to slide into collision course if it is not inevitable but at least afloat. In fact such the "collision" can be easily identified from the South China Sea, the East China Sea and the Yellow Sea. There are a good range of competing concerns between Beijing and Washington over the issues. A couple of new facts might fuel their contending concerns. U.S. is planning to cut defense budget due to hiking federal fiscal deficit. It's arguable if U.S. ailing economy would forcefully cut back its overseas security and strategic commitment in the Asia-Pacific, and how other regional powers could correspond to such trend of American defense budget.

Simultaneously, however, it seems more difficult to depict the nature of China-U.S. relations explicitly for the time being. China and U.S. sustain a variety of levels of high-rank contacts and dialogues, and their economic ties have also deepened and broadened. No one denies the fact that two powers have never been more indispensable since their economic and strate-

gic interactions predominates outlook of the world in the 21 century. Vice President Joe Biden points that "I remain convinced that a successful China can make our country more prosperous, not less."³ This has been achieved through a gradual change in the attitudes, policies and domestic factors of each country, as both parties seek to place a greater emphasis on "forward-looking vision" and "sailing together in the same boat" bilaterally. The complexity of Sino-US relations has never been more projected into East Asia. Now the Obama Administration reiterates that the U.S. is a "pacific power," and dramatically, China's rise happens to much occur in the region. Regional security and its trend in future reflect a long-term likelihood of protracted strategic conflict between Beijing and Washington.

Since the end of the Cold War, the status and nature of East Asian security has been largely determined by Sino-U.S. relations. In particular, this relationship has affected the way in which countries of the region have been able to manage their own security concerns, how regional powers interact and cooperate with one another and how these countries have maintained a level of mutual strategic awareness. These are the key factors to be taken into consideration in stabilizing and further developing security in East Asia. However, there are still many factors which threaten the regional security of East Asia, such as the development of North Korea's nuclear program (with peace on the Korean Peninsula yet to be achieved), the Taiwan issue, the dispute between Japan and Russia over the Northern Territories (Kuril Islands), the conflict over ownership of the Nansha Islands and many other non-traditional security challenges. Generally speaking, security in East Asia has

always been determined by two “basic axes”: the first being the U.S. military alliance system in the Asia-Pacific region and the second being the cooperation and competition inherent in Sino-U.S. relations. The evolution of these two “axes” will greatly pre-dominate the regional security outcome in East Asia. The question remains unanswered if these two axes could be framed with somewhat inherent and endurable compatibilities.

New Challenges to Security in East Asia

As China’s strength and influence continues to increase, the strategic model in East Asia is experiencing its second major adjustment since the end of the Cold War. The last adjustment, which occurred in the mid-1990s, reflected the change from a Cold War to post-Cold War structure in East Asia.

The security adjustment from a Cold War to a post-Cold War model is generally considered to consist of four key elements. The first is the continuation and maintenance of an alliance system dominated by the U.S. The “hegemonic stability” created by America’s regional strategy and military

advantage is supported by a robust U.S. military presence in Asia. This means America has the capacity to fulfill regional security obligations and is essentially providing a regional nuclear umbrella. Second, the U.S. practices an engagement policy with China and tolerates competition in the realms of values and political systems. China's rise means America must cooperate with China to support economic prosperity and regional economic cooperation in East Asia. Third is the policy of maintaining the status quo in sensitive regional issues; for example, the aid established by the Geneva Accord is used as a trade-off for North Korea to stop developing nuclear weapons, so as to secure the denuclearization of the Korean peninsula. Similarly, the Taiwan issue has not escalated because the U.S. has chosen not to support Taiwan's independence, thereby deterring China from taking military action to settle the dispute. Fourth, the establishment of various different channels to facilitate dialogue, the creation of cooperation mechanisms to tackle regional security issues and the development of multilateral security cooperation, which has occurred in tandem with the aforementioned forward stationing of U.S. military forces, relevant regional security obligations and the maintenance of the alliance system.

However, since the end of the 1990s, East Asia's security has been heavily influenced by the rise of China and East Asia at large. A "power shift" has been occurring in East Asia: while the fundamental structure of regional security, namely, the relative strength of powers, has not undergone radical change, subtle changes have occurred to the security framework. China's influence in the realm of East Asian security has constantly increased. This

is not only seen through the increasingly influential role China has played in the Taiwan issue and on the Korean peninsula, but also in the rapid development of East Asian regional economic cooperation mechanisms such



August 18-19, 2011: the 6th Pan-Beibu Gulf Economic Cooperation Forum was held in Nanning, Guangxi Province. Pan-Beibu Gulf economic cooperation is a newly emerging sub-regional cooperation forum under the ASEAN "10+1" framework which includes China, Vietnam, Malaysia, Singapore, Indonesia, the Philippines, Brunei and Thailand.

as ASEAN+1 and ASEAN+3, which were jointly promoted by China and ASEAN. In January 2010, the free trade zone between China and ASEAN was officially established. China's economic power has become a strategic concern that is attracting increased attention in the West: how will China's economic influence in the region be transformed into a new "lever" that will affect regional security and change the balance between China and the U.S. in East Asian regional politics?

In 2007 and 2008, U.S. Secretary of State, Condoleezza Rice, did not attend the ASEAN regional forum, and the Bush administration was criticized for lacking the foresight to compete with China in East Asia. In addition, the U.S., as well as other countries, took a negative view on the development of China's military capabilities, perceiving this as a threat to regional security. In 2009, the U.S. Department of Defense conducted high-level discussions about China's development of regional military "denial ability" for the first time, in a report entitled *Chinese Military Power*.⁴ Furthermore, the U.S. believed that Beijing was trying to build up its initial delivery ability for overseas combat forces. During 2010 and the period January-February 2011, China's military power was exaggerated to new heights. In *Development of China's Air Force Capabilities*, a report published by the Rand Corporation in February 2011, it was stated that China is likely to possess air power capabilities that could challenge the U.S. within five years.⁵ This represents the new wave of concerns over the "China threat," triggered by the test flight of China's "stealth" aircraft on January 11, 2011. In addition, China's successful test of a satellite-destroying missile in January 2007 also caused the U.S.

great concern as this means China has developed the capability to wage war in space.

Since the outbreak of the global financial crisis in 2008, China's economic strength and influence in the international community have greatly increased, while the U.S. has suffered a period of economic stagnation and is struggling to revitalize its domestic economy. America has reduced its level of involvement overseas as a result of decreases in the federal budget. The contrast of the "rise and fall" between China and the U.S. has not only started to influence the relationship between the two countries and their regional policies, it has also brought new challenges to East Asian security. The stabilization of Sino-U.S. relations has become crucial to realizing and maintaining stability in the regions surrounding China as well as ensuring the security of the entire East Asia region.

In 2009, the U.S. formed the Naval Network Warfare Command, which was established in direct response to China developing the capability to engage in cyber warfare. The Pentagon argues that Beijing is pursuing "A-D & A-2 Strategy" to cost the U.S. highly in the prevention of American military intervention into China's embracement in its peripheral areas.⁶ In fact, U.S. is getting tougher and tougher to China's military buildup since 2010, and its response to plenty of regional fuzzy issues turns out to be much military since then. For example, U.S. pulls its allies ties much closer with Seoul, and speeds up military strengthening plan with Japan SDF, and increased its military presence at Australia. Most importantly, Washington has decisively started off its military joint exercises and revitalizes defense cooperation with

Vietnam, which has sovereign claims over the South China Sea. The current evaluation of China's military ability and its strategic intentions in regional security has changed significantly in comparison to the earlier years of this decade. With China's rise, those countries in America's strategic circle must ask the question: will the U.S. be able to safely retain its status of regional security preponderance, or its goal to be the single greatest dependability in the region? It is clear that regional security is now facing an unprecedented "China impact."

China Rise and Its Regional Security Effects

In addition to Sino-U.S. relations, a series of new factors and issues are rigorously testing the future direction of security in East Asia. Firstly, how far would the reorganization of regional security structures, which are heavily dominated by the U.S., go? A decade after the terrorist attacks of September 11, 2001, the U.S. has spent billions of dollars on fighting wars in Iraq and Afghanistan. At the same time, Washington has relaxed its strategic vigilance toward China. Since May, 2003, the U.S. has made a series of moves in the

Asia-Pacific region, including a hub-and-spoke strategic adjustment, expanding its military facilities in Guam, moving the intelligence center of the U.S. Pacific Fleet to Japan and deploying the latest F22 aircraft and Ohio-class nuclear submarines to the West Pacific. All of these moves were indications that the U.S. is taking stronger military action to monitor China's movements.

Firstly, to what extent the strategic focus of the U.S. which is undergoing a significant shift from Europe towards the Asia-Pacific region will be military. In particular, measures including the Bush Administration's lifting of its nuclear sanctions on India, the signing of the U.S.-India nuclear technology cooperation agreement and the decision to export advanced military equipment to India indicates that the U.S. is taking important diplomatic steps to restructure the strategic balance in Asia. After Obama took office in January 2009, the U.S. made a series of warm gestures to encourage China to play important foreign policy roles. This was largely due to the heavy negative impact that the global financial crisis has had on America and her European allies. America is facing a difficult situation and has realized that the country is no longer qualified to lead the world and resolve global issues on its own.

However, the Obama Administration did not neglect the so-called "China impact" in the military, strategic, and diplomatic arenas. America began to take high-level diplomatic action, which it termed "the return to Asia." The Obama Administration hoped it could make up for the defects of the Bush Administration's diplomacy and avoid losing strategic assets to China by endeavoring to rebuild strategic East Asian confidence in America's security



November 16, 2009: US President Obama delivers a speech on the future of Sino-American relations to young Chinese in Shanghai and answers their questions.

strategy. Therefore, the “return to Asia” strategy of the Obama Administration focused on strengthening military, defensive, and political relations with ASEAN countries, playing the positive role of a China “balancer” in response to ASEAN’s China-related concerns and avoiding the decrease of America’s strategic influence among the ASEAN countries. In July 2010, the U.S. State Department took a definite stance and intervened in the Nansha Islands conflict, disputing China’s core interest theory on the South China

Sea issue. The purpose of this act was to send a clear message to East Asia: the U.S. is an indispensable strategic force necessary to balance China's rise. The key question is: how far can these practices, namely, building U.S.-India strategic relations, expanding cooperation with ASEAN in defense and military partnerships and drawing in its allies to coordinate its defense cooperation with India and ASEAN, go towards achieving America's strategic goals in the region? There is no doubt that the Obama Administration has significantly reshaped security outcome and consequently, a "balancing-China" system in East Asia is emerging across the region. Actually, the U.S. has put much emphasis on hedging and rivaling instead of cooperation to enable the United States to maintain regional predominance. Expectedly, such moves will exacerbate Chinese concerns.⁷

Secondly, how will the situation on the Korean Peninsula develop? The Cheonan Incident and the Yeonpyeong artillery exchange in 2010 have broken the original cease-fire balance on the Korean Peninsula established after the armistice of 1953. At present, it is unlikely that the Lee Myung-bak Administration will change its current hard line policy against North Korea. It is also unlikely that diplomatic or military change will occur on the Korean Peninsula in 2011. However, we should not underestimate the possibility of further deterioration in the situation on the Korean Peninsula if dialogue between North and South Korea fails to produce anything constructive or, worse, stagnates.

The U.S. continues to have military and strategic concerns over North Korea's uranium enrichment program. The U.S., South Korea, and Japan are

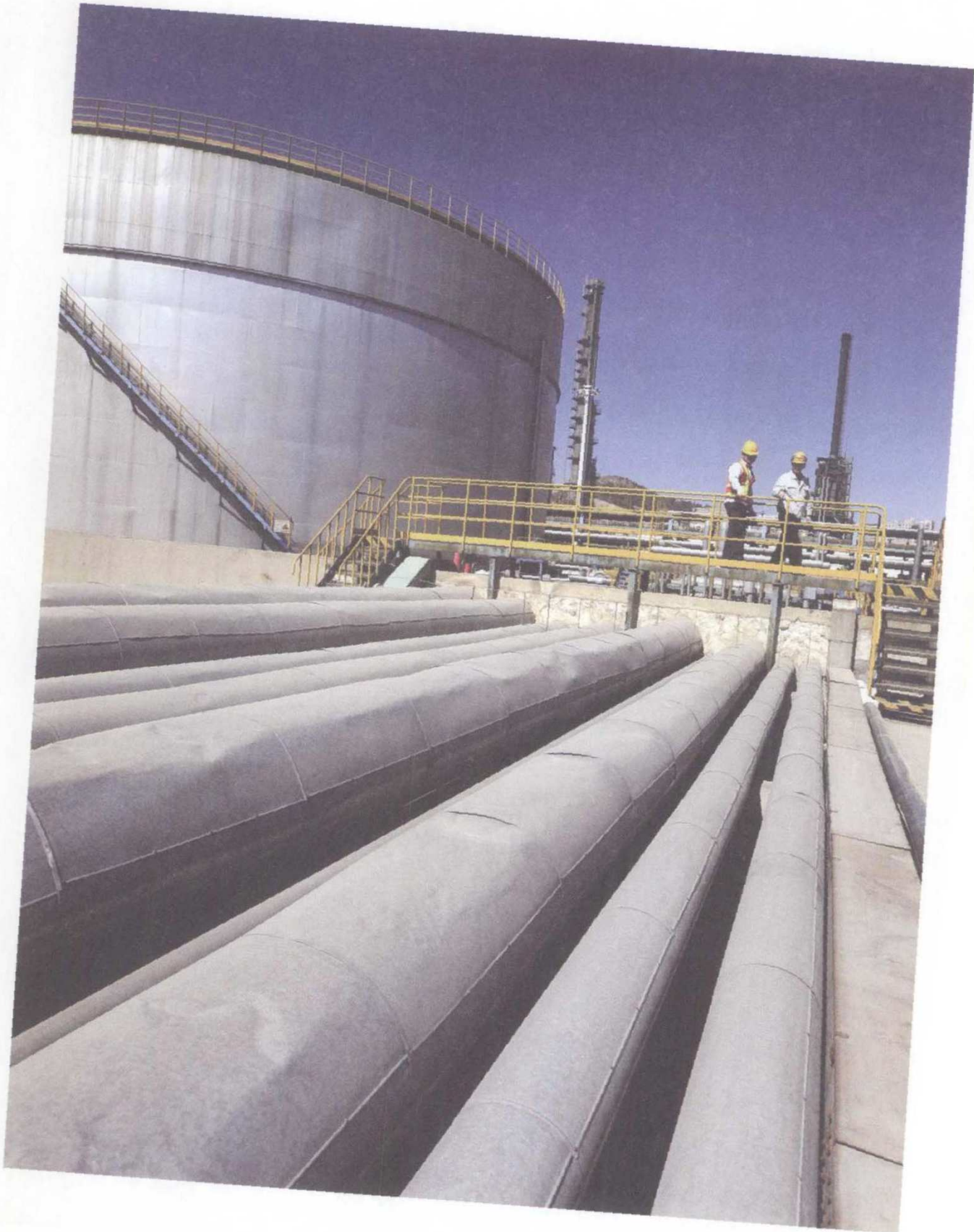
making greater efforts to isolate and put pressure on North Korea, and as a result North Korea inevitably resorts to nuclear or long-range missile testing to break out of its diplomatic difficulties. In the near future, it seems that there will be no substantial decrease in the likelihood of a military conflict on the Korean peninsula. The situation on the Peninsula still creates much uncertainty in Sino-U.S. relations.

Thirdly, what security role does Moscow want to play in East Asia? On November 1, 2010, the Russian President Medvedev made a trip to the four islands in the Kuril range, the disputed territories between Russia and Japan. This subsequently triggered a diplomatic row between the two countries. Both countries took hard line positions on the issue, causing Russia to take measures such as sending more mechanized infantry divisions to the four islands, deploying S-400 surface-to-air missiles on the islands, and reinforcing the military power of its Pacific fleet. The Russian military is changing its traditional strategic thinking. In the past, Russia considered NATO member countries and the U.S. were its most significant potential enemies. After Moscow greatly improved its political and military relations with NATO countries as well as the U.S., Russia's military strategy has undergone a shift; NATO countries, the U.S., Japan, and even China are now all seen as potential strategic rivals. This change in strategic considerations is also the main theoretical basis of military technology cooperation between Russia and China. In 2005, Russia began its program of military reform. Each year, Russia has strengthened military deployment, with an emphasis on deploying resources in the Far East and Siberia in addition to Europe. It is Russia's

hope that its quick-response deployment capabilities on these two extreme fronts - Europe and the Far East - will better secure Russia's security position. Over the past decade, the scale of each of Russia's military exercises has been grander than the last, and Russia is paying great attention to possessing capabilities which provide an integrated, quick response on land, air, and sea. This indicates that Russia is not simply preparing to combat one hypothetical enemy. In fact its strategy involves multiple players and is not just limited to the U.S. or Japan. Therefore the ongoing importance of Russian military reform cannot be overstated.

Fourthly, can Sino-Japanese relations recover from the disputes caused by the boat collision of September 7, 2010? In that month, the Diaoyu Island dispute between China and Japan escalated, with Sino-Japanese relations falling to their lowest level since 2006. The Diaoyu Island dispute has had an even greater impact on Sino-Japanese relations and security than the Yasukuni Shrine issue during Prime Minister Junichiro Koizumi's time. Although the Naoto Kan Administration indicated its intention to ease strained Sino-Japanese relations, the Democratic Party of Japan's denial that there exists any dispute over the Diaoyu Islands between China and Japan is the biggest obstacle to easing tensions. The choices that Japan makes, a country that has suffered frequent frustrations in diplomacy over territorial disputes, will be

Right: After the March 11 Earthquake in Japan, the Chinese government provided emergency grant aid — 10,000 tons of gasoline and 10,000 tons of diesel. The Chinese workers examining the No. 623 diesel tank to be donated to Japan.



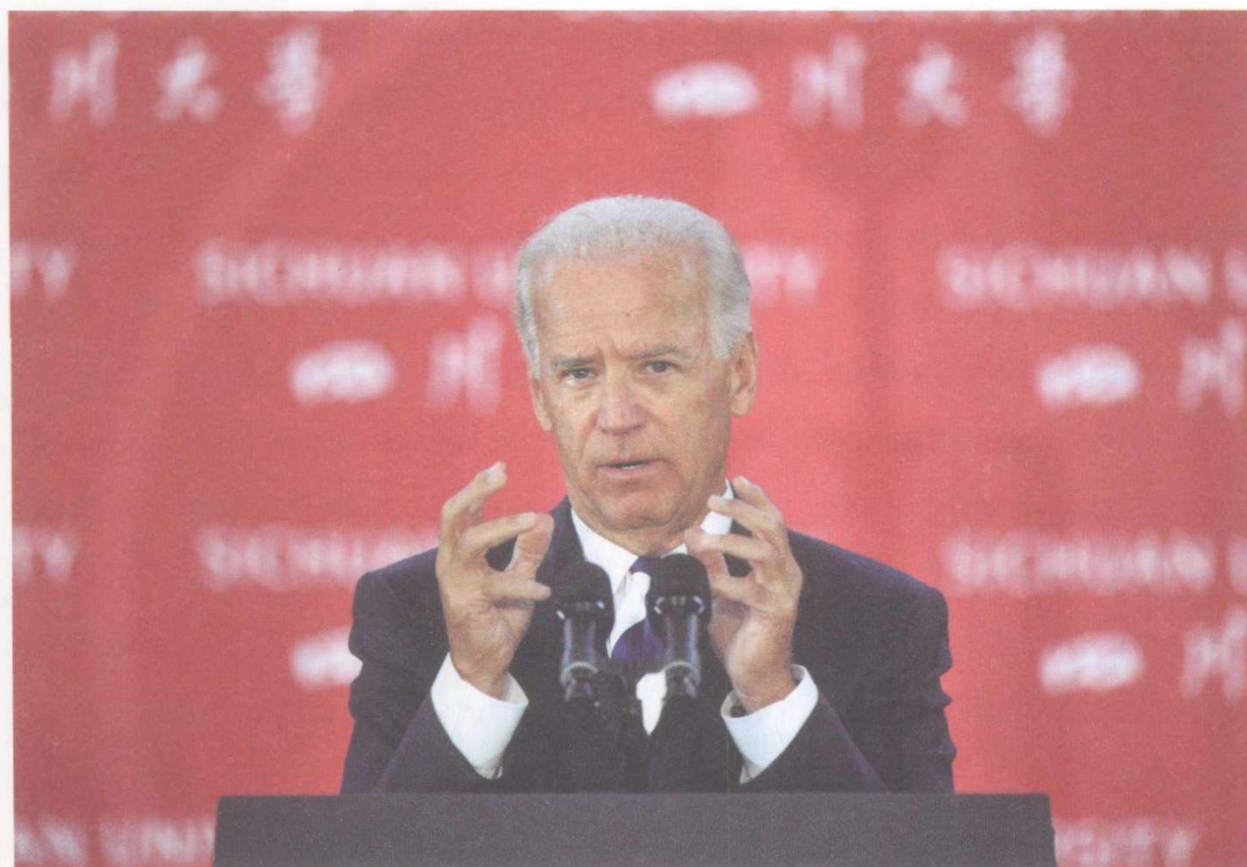
important in determining the evolution of regional security in East Asia in the future. It seems that Japan's security awareness over a rising China is unstoppably swelling. New Prime Minister Yoshihiko Noda warns at Washington, DC., on October 15, 2011 that his country's security outlook is murky over China's rise.⁸ In return, Japan's diplomatic activism of maritime security arrangement in the South China Sea causes Beijing's growing concern that Tokyo is conspiring to tie China down to a multilateral setting that China has long not preferred to. In particular, Chinese analysts have some reason to be concerned given the new prime minister's apparent policy predilections.⁹ In fact, management of China-Japan security dilemma might be much through the U.S. and regional collaboration as well.

East Asian Security Can Be Stabilized only when Sino-U.S. Relations Are Stabilized

After the Obama Administration came to office, Sino-U.S. relations saw great improvements after an already promising start. The Joint Communiqué, signed during President Obama's visit to China in November 2009, proposed that both countries should respect each other's "core inter-

ests.” However, since 2010, disputes have frequently occurred between China and the U.S., with issues such as arms sales to Taiwan, meeting the Dalai Lama, the Google incident, the South China Sea issue, the Yellow Sea military exercise, the East China Sea issue and the development of North Korea’s nuclear program, thus new tensions appear to constantly challenge Sino-U.S. relations. If Sino-U.S. relations were strained in 2010, it was not the result of major adjustments to the policies of the two countries, but a series of changes that occurred within the domestic politics of both countries. After President Hu Jintao’s state visit to the U.S. during January 18-22, 2011, and the frank dialogue between Presidents Hu and Obama, relations between the two countries had started improve. However, the Joint Communiqué signed and issued by the two countries on January 19, 2011, did not reaffirm that both sides should “respect each other’s core interests,” as was stated in 2009. There is still a very long way to go for Sino-U.S. relations to achieve both countries’ joint goal of building a “reciprocal win-win” partnership, which has been proposed by the state leaders of the two countries.

At the strategic level, economic relations alone do not determine the closeness of relations between two countries. There has been an unprecedented “separation” of the distribution of wealth and power across the world over the past two centuries; China has seen its status rise in terms of the global wealth structure but not in terms of the global power structure. The year 2010 provides many examples of this phenomenon. For example, the “dual structure” present in Asia, where countries heavily rely on the U.S. for security but rely on China for economic development. When visiting the U.S.,



On the morning of August 21, 2011, US Vice President Joe Biden met students at Sichuan University and delivered a speech on Sino-American relations. He said that a prosperous China would be more in need of American products and create more employment opportunities for the United States. China's development is in America's interests.

President Hu Jintao stated that China's economic growth has provided 14 million jobs worldwide and that China is an important engine that is driving the world's economy. However, China's economic contributions cannot be transformed into substantial security benefits at the strategic and security levels, at least in the short term. There will not be any substantial changes to

this structure before the adjustment of the global wealth structure reaches its conclusion and a new, stable power structure emerges. Moreover, the United States factually dominates the region by consolidating traditional allies system with Japan, ROK, Australia, and fabricating new strategic partnership network significantly involving India, Vietnam, Indonesia and Malaysia. India uses its political system, geographical position, and democratic identity to propagate the "China threat theory," currying favor among the contemporary global community. In 2010, state or government leaders of the five permanent members of the United Nations Security Council visited India; this is an indication that the strategic status of New Delhi is on the rise. India's strategic decisions will play an increasingly important role in deciding the future of Asia's security model and its regional power distribution.

China's rise is becoming the primary factor guiding the change of global and regional strategic patterns and changes to relations between countries. At present, developed countries still heavily depend on U.S. strategies. The international expectation that the U.S. is the country that should "check and balance" China's growing power and influence has become increasingly popular. Such an expectation is spreading from developed countries in the region to China's neighboring countries. The U.S. is making efforts to take advantage of the many strategic benefits brought about by China's rise. Objectively speaking, China's rise is becoming an important means by which the U.S. can consolidate its regional strategic hegemony. The Chinese people should have a clear understanding of this situation. Maintaining long-term stability and constructive development of Sino-U.S. relations is increasingly becom-

ing a crucial issue that heavily influences and even determines relations between countries and the development of regional strategic patterns. In the face of new adjustments to the security model in East Asia, the strategic task to stabilize and develop Sino-U.S relations has become even more pressing. Otherwise, no flash point in the region will be genuinely well-managed and diminished.

North Korean issue is very telling evidence. Beijing and Washington diverge on how to jump-start the 6 Parties Talks, and have contending views on how the nuclear issue of Pyongyang should be squarely and gravely addressed. Beijing has been struggling to leverage its relationship with Pyongyang to push for denuclearization process. Alongside Washington, Seoul and Tokyo, Beijing does not see any possibility that stability and peace on the Korea Peninsula could be gained unless N. Korea would give up its nuclear program. The controversy of China's policy of North Korea is how to balance its doubt concerns in the real policy practice: instability of North Korea and denuclearization of N. Korea.

As strategic relations between major countries such as the U.S. and China are basically stable, it is unlikely that any disputes that arise will escalate into military conflict. Former Secretary of Defense Rumsfeld argues that there is no sign that U.S. and China will ultimately drive into collision course as they compete on a variety of respects. He is convinced that it would be "the greatest failure of diplomacy in the world" if that collision truly happens.¹⁰ To refrain from such "failure," China and U.S. need to keep their militaries in contact, and realistically explore the way to underpin manageable and

workable relations between defense departments. Apart from that, the role of social factors in the relations between major countries has increased in importance. For China, the development of “soft power” is as important as making China a prosperous country or expanding its military capabilities. Now that the global system is basically stable, the influence of social factors is becoming the main consideration that defines and even determines the relations between major countries. These social factors include core values, ideologies, public opinion, the attitudes of citizens and social cognizance,



The 21st Century Forum is not only a stage for the CPPCC to carry out multilateral contacts and promote international cooperation, but also a window to practice public diplomacy and showcase democratic politics with Chinese characteristics.

freedom of speech and the collective national emotions of the people, which all vary from country to country. Today, the space for interaction in the relations between major countries with the characteristics of “public diplomacy” has been greatly expanded. Considerations of strategic, economic and diplomatic interests are increasingly carried out alongside the building of good networking and public relations. This issue has become a strategic challenge for China’s rise.

Conclusion

In the coming decades, the relationship between Beijing and Washington is likely to be the foremost bilateral relations in the shaping of international security. U.S. will reinforce its military and strategic presence to counter adversary effects of China’s sustainable rise in economic, military and strategic terms. However, it does not necessarily suggest that Sino-American relations will be more confrontational. Despite of China’s impressive military modernization, there is no substantive shift in power structure in East Asia. Actually the United States remains quite steady in its regional as well as global preponderance, and there is no change at all of power disparity

between Beijing and Washington. Therefore, it's much likely that Beijing will not automatically concede to U.S. defense expansion in the region but also not prefer to see escalating tension between the two countries. As long as China and U.S. can sustain their high-level contacts and negotiation, it's much expectable that two powers can persist in their "important, but complex" relationship.

Notwithstanding, stability of China-U.S. relations is much up to skill, version and determination of both leadership on how to keep their ties well-managed. Sobering management of China-U.S. relations does not stem from growing convergence but also from non-conflicting divergence. Thus both sides must change and adjust their policy to hedge the bets whilst carrying on the shared responsibility to make the region peaceful, stable and prosperous, where Beijing and Washington would truthfully benefit from. For that part, China should continue to bend on its domestic development and transformation, and rein in its nationalistic diplomacy. Meanwhile, the U.S. needs not to over-respond to China's correspondingly "abrasive" diplomacy which occurs periodically, and instead encourage China to learn to be a great power. It remains to be seen how cooperation between China and the United States develops, not only with regard to East Asia but also regarding sources of regional instability in other parts of the world.

Notes

- ¹ Hillary Clinton, "American Pacific Century," *Foreign Policy*, November 2011, at http://www.foreignpolicy.com/articles/2011/10/11/americas_pacific_century?wpisrc=obinsite
- ² Michael D. Swaine and M. Taylor Fravel, "China's assertive behaviour," *China Leadership Monitor*, No. 35 (Summer 2011), pp. 1-36.
- ³ Joseph R. Biden, Jr. , "China's Rise Isn't Our Demise," *The New York Times*, September 7, 2011.
- ⁴ The "denial strategy" was first proposed by the Rand Corporation. It purports that China does not seek to engage in full-scale war with the U.S. Rather, China will instead deliver effective "localized" strikes on the U.S. military, thereby shaking the political and military basis for the U.S. to mount a full counter-strike. If this strategy is implemented successfully, China will effectively hold back the U.S. military's ability to operate freely on land and sea in East Asia, though neither China nor its military have confirmed any such claim.
- ⁵ Rand Corporation, *Development of China's Air Force Capabilities*, Santa Monica: Rand Corporation, February 2011.
- ⁶ "A-D & A-2" is an abbreviation of "area-denial" and "anti-area access".
- ⁷ For the best exploration to China-U.S. action-to-reaction spirals so far, please refer to Michael D. Swaine, *America's Challenge: Engaging a Rising China in the Twenty-First Century*, Washington, DC., Carnegie Endowment for International Peace, 2011.
- ⁸ Chester Dawson, "Noda Say Japan's Security Outlook 'Murky'", *The Wall*

Street Journal, October 15, 2011.

⁹ Elizabeth C. Economy, "Why China Worries About Japanese Prime Minister Noda", *Foreign Policy*, August 31, 2011. at <http://blogs.cfr.org/asia/2011/08/31/why-china-worries-about-japanese-prime-minister-noda/>

¹⁰ Kim Young-jin, "Donald Rumsfeld, Former U.S. Secretary of Defense, Delivers a Lecture at the Asan Institute for Policy Studies in Seoul", *The Korea Times*, October 14, 2011.



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Change and Adjustment: Sino-U.S. Relations and Security Dynamic in East Asia

The most important element of the new changes occurring in Sino-U.S. relations is certainly not mutual enmity but cooperative, rather than confrontational, competition between the two countries. This element has never been more considerable regarding China's rise and U.S. recalibration of its strategic and economic gravity over to the Asia-Pacific.

In the first decade of the 21st century, a growing trend of changes in current international structure is taking hold in the world that is generally stable. In past decades, trends such as globalization, information technology, and democratization moved on amid confusion and doubts. The last ten years witnessed the rapid development of China, and, for the first time in recent history, a historical shift from the West to the East has appeared in areas such as international power and wealth. World politics now faces unprecedented complexities and uncertainties as various forces, diverse topics, and competitive ideas permeate nearly all aspects of this international game. By carrying on domestic reforms and further integrating into the international system, China has not only built up its powerful national strength and strategic influence, but also improved its international identity by actively participating in and building the current international order with other countries. It is necessary to look to the future of the world and the opportunities available to China to grasp world trends and develop its own policy formulation and strategic adjustments.

World Trends: Looking Forward

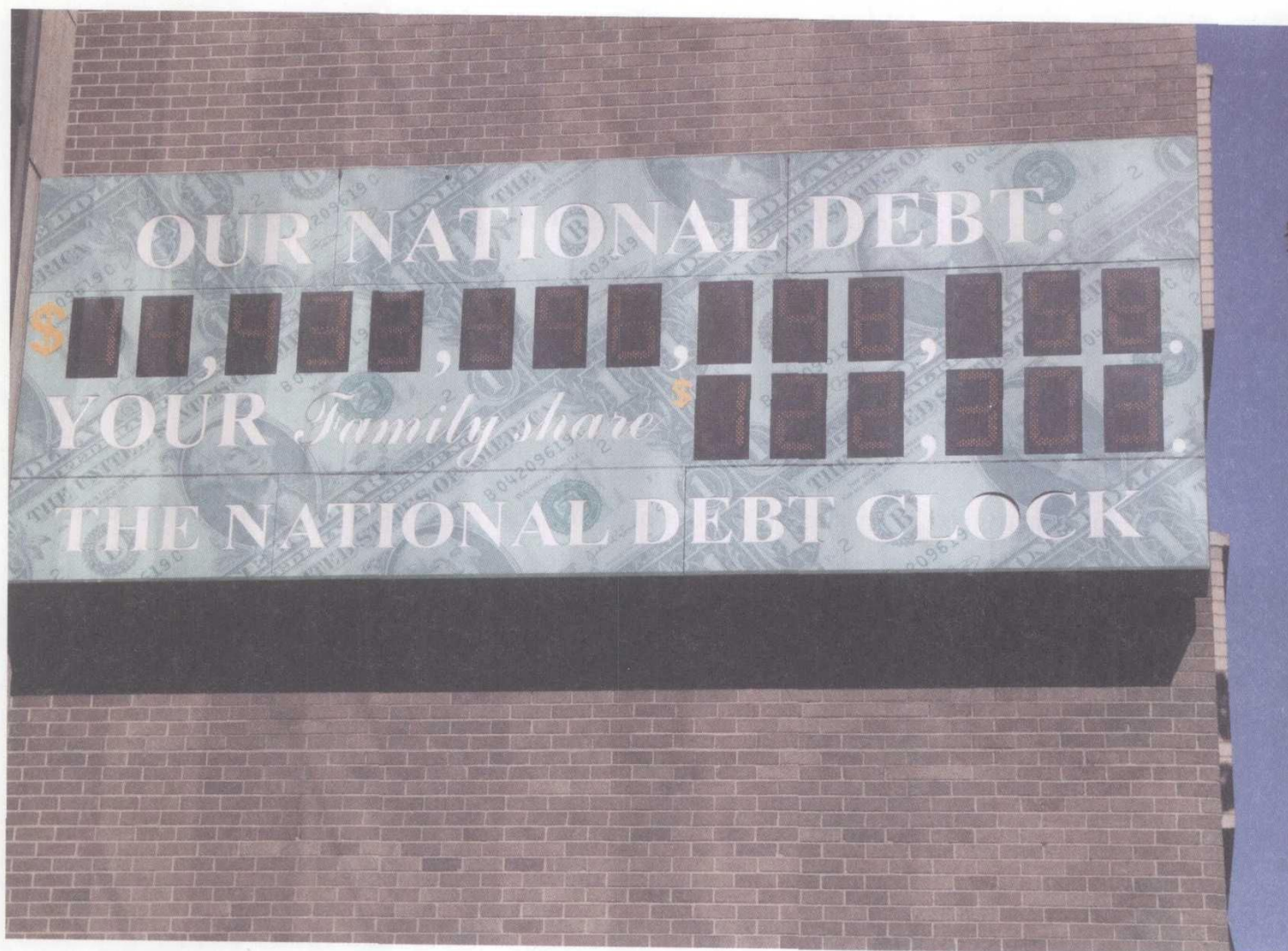
As a result of the international financial crisis, the rise of emerging economies, and the upsurge of global problems, the world is accelerating into the post-financial crisis era. With regard to future trends in world affairs, various scholars have proposed diversified ideas.¹ This paper attempts to study future world trends by using international structure as a basic variable to analyze the impact that the changing international structure has had on global issues, decision-making systems, and the concepts of development.

We can draw a distinct perspective into current and future international structures from the split of Western and non-Western powers in international relations. After the end of the Cold War, the world temporarily entered a uni-polar period defined by American supremacy.² Becoming the formulator of global rules and the leading provider of international public goods, the U.S.-led camp took full advantage in international relations. Nevertheless, the post-Cold War Western-centric position was quickly shaken in only two decades. Presently, the international authority and global influence of the Western camp has shrunk considerably. Being the leading force of Western-led supremacy, U.S.'s power is severely weakened due to its foreign policy missteps and its own internal economic difficulties.³ Meanwhile, the non-Western world has been relatively divided and weak. Marginalized within

the world power structure, non-Western countries are deprived of the rights to make decisions on world system-building and benefits allocation, and instead constantly suffer from interference and exclusion by the West. Specifically, the non-Western world includes emerging market economies such as Russia, many Islamic countries, failed states, and anti-American countries. The status and role of countries or country blocs in the first three groups are of paramount importance in international world structure. Against the great post-Cold War background of the expansion of globalization and the spread of technological revolution, the non-Western world has successfully initiated or accelerated the process of reform and modernization. Nonetheless, because of sharp differences in historical heritage, natural resources, and political abilities, non-Western countries or country blocs have achieved different end results in the pursuit of modernization. This makes them differ in their status, interests, and strategic choices in international relations.⁴

In the next decade, the balance of power between the West and the rest of the world will continue to change, and Western dominance in international world structure will soon give way to a more balanced power system in which both Western and non-Western powers have their say. As the most powerful and dominant country in the Western camp, the U.S. still enjoys unparalleled technological and military strength. To some degree, U.S. President Barack Obama's reform measures have improved the U.S. economy and its international image. For instance, the latest report on national security strategy not only stressed the importance of military might, but clarified the priority of diplomacy, development, and international mechanisms in

resolving disputes, preventing conflicts, and maintaining peace.⁵ By distancing itself from the strategy of unilateralism and preemptive strikes advocated by the Bush administration, the report demonstrates that the U.S. is good at correcting mistakes and reflecting on its previous strategies. However, the internal and external difficulties facing the U.S. are unlikely to be fundamentally solved within a short period of time. Domestically, despite that the quickly-launched federal bail-out plan and economic stimulus package help to avoid an economic free-fall, the U.S. economy will grow, but sluggishly in comparison to the rapid expansion of emerging economies. The slow recovery will certainly curb President Obama's ambition to revitalize the U.S. manufacturing sector. In addition, the polarization of American politics leads to stronger disagreements between Democrats and Republicans, and between the White House and the Capitol, making it hard to seek unity of will and form a strategic consensus, which is key to the formation of political actions.⁶ Externally, the U.S. has to spend considerable resources on the prolonged battles against terrorism, and its conflicts with and within other countries cannot be solved in the short term. To outsource its responsibility, Washington carried out the process of "smile diplomacy" and cooperated with many partners, but the strategy failed to meet the expected outcome. Therefore, in the future, the U.S. is unlikely to enjoy the same prominent international status it once held at the beginning of this century, and it will have to expend enormous effort (both politically and financially) to reassert its international leadership. As two other important members from the West camp, Japan and the European Union are unable to maintain the status of



The National Debt Clock of the United States showed on August 1, 2011 that its total debt exceeded US\$14.4 trillion — US\$120,000 for each American household.

Western centrism due to being dogged by internal political struggles and challenges to social governance, the West will likely remain at the center of the international world structure, but the ability of the West camp to lead the world in the decades ahead will decline.⁷

The non-Western world is rising. The comprehensive strength and strategic influence of emerging market economies have risen significantly thanks to their successful internal reforms. In the next decade, although these countries have to deal with internal restructuring and governance problems, they will continue to grow at a faster pace than developed economies, and will grow into new engines which will drive the world economy after the global financial crisis.⁸ Their relations with existing major powers will determine the stability of the world. After the Cold War, Russia fell into a decade of decline punctuated by internal strife and international uncertainty. In the years since, Russia has reestablished itself as a world power via strong leadership and making use of advantageous resources. Russia also began to adopt a tough stance with regard to its foreign policy to protect its strategic interests. Suffering from the international financial crisis over the past year, Russia softened its position and made concessions on issues such as Iran's nuclear program and international nuclear disarmament to mend its own relations with the United States. Nonetheless, such an amendment is largely limited to the consideration of different geographic situations, different understandings of history, and the cultures and mindsets of the two countries.⁹ In the coming decade, amid internal calls for stable and sustainable government policies and a second series of reforms within the market, Russia will carry on its foreign policy of drifting between Western and non-Western powers. Thus, Russia's status in the overall international structure remains uncertain, but the orientation of its policies can significantly influence global affairs.

When it comes to the future of the Islamic world, the most decisive point

is to readjust the existing social system so as to balance Islamic traditions with secular values, local cultures, and Western influences. That is to say, the future destiny of Islamic countries is determined by whether they can embark on the transition to modernism driven by endogenous forces. As for the failed states, their future needs a commonly-recognized political authority, as well as assistance based on international consensus and effort. The stance of anti-Americanism will be eased in the next decade as the U.S. adjusts its foreign policies, but it is unlikely to diminish because long-term U.S. supremacy will continue.

The development trends of Western and non-Western powers, together with their interactive relations, foretell significant changes of the post-Cold War international structure dominated by the West. The West will decline, relatively speaking, while non-Western powers will rise as a whole. In the meantime, the power distribution within the two worlds will also change. That is, the U.S. dominance in the Western camp will be further strengthened, while emerging market economies will play bigger roles in the non-Western world. The world will enter an era featuring a relative balance between the Western and non-Western powers, and the coexistence of competition and cooperation between traditional and emerging powers will emerge at a level greater than previously encountered. The relations between emerging powers and the West, with the U.S. in particular, will set the tone and the trend of international politics for the future. Specifically, the changing international structure will deeply affect global issues, decision-making process, and ideas of development in the future world in the following ways:

Firstly, modern global issues will return to the center of international politics. Since the end of the Cold War, three different types of countries have coexisted in the world, namely, pre-modern states, modern states, and post-modern states. Most countries, including the U.S., belong to the category of modern states. A considerable number of European countries have become post-modern states in terms of social formation and political philosophy. Some countries in Africa, Central Asia and Latin America, failing to attain the level of modern states, are instead considered pre-modern states, or, in some cases, the so-called failed states. The three types of countries, on different historical stages of modernization, focus on different issues and appeal to different interests. Pre-modern states strive to meet basic survival needs, modern states emphasize material interests, and post-modern states are pursuing a variety of theoretical processes and abstract rights. The early years after the Cold War were dominated by Western centrism. At that time, global issues in international politics were centered on abstract rights, leading to a fight for discourse between modern states and post-modern states. In contrast, the survival-based needs of pre-modern or failed states were unfortunately ignored for far too long. Nevertheless, with the rise of emerging countries, the return to manufacturing in the U.S., the governance crisis in Europe, and the efforts of failed states to attain modernization, the discourse of material interests will reoccupy the center of the global agenda. In other words, the nature of the power game is still in the competition for material resources and strategic interests.

Secondly, the global decision-making system will seek a new balance be-

tween legitimacy and effectiveness. Since the end of the Cold War, the U.S.-led Western camp dominated the process of making rules and setting agendas in the world. Nonetheless, with the decline of the overall ability of the West and the rise of global problems, the Western decision-making system is now facing a double crisis in both legitimacy and effectiveness. The spread of the international financial crisis further accelerated the decline of the existing system. On the contrary, emerging market economies are playing increasingly important roles in promoting global economic growth, and resolving international financial crisis. Consequently, the basic trend of future policy-making systems is to find space to meet the demands of emerging countries, and in turn establish a governance model based on extensive coordination and equal status between traditional and emerging powers. The rise of the G20 not only strengthens the discourse power and influence of emerging countries, but provides traditional and emerging powers with the platform to coordinate their policies. In this way, global economic decision-making systems achieve a new balance between legitimacy and effectiveness.¹⁰ The system, however, still needs swift and deep reforms to satisfy demands by the ever-changing global situation, effectively countering global and regional problems on a broader scale. To take the high ground in the post-financial crisis era, different countries will establish various temporary and exclusive blocs, which will be an important trend in the development of future global decision-making systems. As these blocs differ in the ability to integrate different interests and to establish standards, only those with strong consensus-building skills and powerful international functions will survive and become

the starting point for establishing a new global system.

Thirdly, concepts of international development will inevitably become diversified and independent. Back in the era of Western centrism, besides building an absolute advantage in physical strength, the West monopolized the right to interpret modes of development and modernity. The heart of the Western intercourse lies in the presumption of a unique way to attain modernization which is the belief in the almightiness of democracy. Drawn from moral standards rather than fact-based judgment, the division considered the experience accumulated under specific scenarios as the universal choice.¹¹ Driven by such a messianic mindset, the West vigorously promoted their experience across the globe, resulting in political turmoil and social instability in many late-coming countries. Zakaria holds that many of the democratization attempts by countries involved in the third wave of democratization eventually evolved into "illiberal democracy," stirring up worldwide suspicion of the portability of the Western mode.¹² The Western image as the pioneer in modernization and defender of democracy is now shattered by the exposure of a series of internal problems in the West, such as strategic blunders in US foreign policy, the out-break of financial crisis, and the spread of European sovereign debt crisis. Contrastingly, the non-Western world is now on the rise. Emerging countries are relatively successful in economic development and crisis prevention. Increasingly confident, these countries put more emphasis on their own characteristics, and form their own governance mode according to internal needs, local realities, and current national conditions.

Future Trends of China's Development

After the implementation of the reform and opening up policy in 1978, three decades of economic growth and accumulation witnesses China's national strength increasing in every aspect. The Beijing Olympic Games displays China's modernization achievements and the strong capacity of organization and mobilization. The military parade held to mark the 60th anniversary of the founding of New China evidences the steady improvement of China's military and national defense. The 2010 World Expo in Shanghai demonstrates China's advanced technology and innovation capacity. Other events, from the earthquake relief work in Wenchuan to countermeasures against the financial crisis, show that China excels at disaster relief and damage resistance. For a long time, China's national strength can only be defined by the growth rate and total amount of GDP. But now, the present power structure of China is more comprehensive and concrete. In 2009, despite the spread of financial crisis and the downturn in real economy, China stepped out of the international financial crisis first and realized the goal of 8% growth in GDP thanks to its powerful stimulus policies and fine coordination between internal and external markets. In 2010, China is to surpass Japan to become the world's second largest economy, thereby becoming the highlight of the world.



August 11, 2011: the general plan for the post-Expo development was issued. According to the plan, the expo park would be a new world landmark, combining the functions of museum and exposition, centre of culture, business headquarters, a high-end venue for exhibitions, tourism and recreation, and an ecological residence.

In the next decade, China's overall strength will continue to grow at a fast rate. Economically, China is in the middle stage of industrialization. In this historical process, it is overwhelmingly important to carry on the strategic

mission of modernization. Sufficient supply of labor forces in the long term makes it a possibility and a must for China to keep its rapid growth.¹³ After decades of efforts to build a modernized country, China has established a complete industrial system and developed infrastructures, preparing the way to transform the pattern of economic growth and to upgrade the structure of industry. Meanwhile, China boasts a vast market with numerous potential consumers, and the government has a strong financial base and various regulatory policies. Once the institutional obstacles are removed, China's economic growth will be greatly motivated by its domestic demands. With the implementation of national strategies for innovation, China will give full support to strategic industries, leading to a substantial growth in its scientific and technological strength and innovation capacity. It will not only greatly increase the content and quality of China's economy, but also help China move up from the bottom of international industrial chain to the upstream. Then, China will establish its advantages in worldwide resource allocation and division of labor.

Militarily, China will accelerate the modernization of its national defense in response to complex and diversified security threats. Firstly, although the cross-strait relation is easing in recent years, and the two sides have put aside at the moment the dispute over sovereignty, yet the Taiwan issue is unlikely to be solved very soon. Besides, there is the potential for the issue to get intensified and altered by interference from outside forces or changes in the internal political environment. What's more, the rampant activities of Tibetan separatists and East Turkistan secessionists pose a huge threat to China's

national security and territorial integrity. Secondly, as China goes global and further integrates into the world, the boundary of its national interests is also expanding outward. But China severely lacks the ability of strategic support and the military means to defend its interests. In the new era, it will become an important part of China's strategic planning to protect and fulfill the growing overseas interests. Finally, China is facing an increasingly complex external security environment with soaring non-traditional security threats,



August 10, 2011: China's aircraft carrier started its first sea trials and returned on August 14 for further modification and testing in the shipyard.

and an ever-increasing opposition military presence by traditional powers. This means China has to shoulder a much heavier duty of national security. Under the grand strategy of active defense, China will step up the construction of national defense by improving the weaponry and equipment, as well as the technological level and quality of the army.

In the future, the soft power of China will also grow rapidly. The scale of China's industrialization is unprecedented. It has not only achieved sustained rapid economic growth and fundamental changes in social life, but also brought opportunity and welfare to the whole world. The most remarkable point is that the whole process is done in a very short period of time, and has not brought wars or conflicts to other countries. From daily supplies to industrial fabrications, from UN peacekeeping operations to a string of international summits, China is now an outstanding element in the international community, while the Chinese Mode has become a hot topic around the world.¹⁴ The basic experience and thinking of China gives new-coming countries a revelation on how to set the priority of domestic agenda, and on how to treat the relationship between external experience and local care. The Chinese Mode also has a distinct influence over how to counter such fundamental challenges in the world today as war and peace, clash of civilizations, environmental protection, and so on. In this sense, the rise of China equals the rise of its political soft power.¹⁵ Of course, the comprehensive growth of China's national strength is constrained by some harsh problems in that the development of soft and hard powers is imbalanced, that its limited influence does not match its power, and that it lacks international discourse pow-

er.¹⁶ Thus, the construction of soft power has become the country's overall development strategy and an important part of China's foreign policy. In the coming ten years, China will keep improving quality of life at home and image outside, attach greater emphasis on national governance, the core values, and diplomatic relations, and thereby provide support to the development of its comprehensive national strength.

Of course, China in the next ten years will be full of internal conflicts and external complexities. Firstly, the rapid growth of national wealth does not mean the overall progress of the entire social system. On the contrary, the longtime focus on economic growth has led to a series of problems like economic disparity, social imbalance, resource shortages, and environmental degradation. Policy makers need to muster all their political wisdom to prevent the escalation of these problems, which are often the prelude to the eruption of social conflicts. Secondly, the transition from charismatic-type leadership to technocrat-type leadership means the party needs a stronger consensus for unity. And this, in addition to the pressure for changes from Western powers, the formation of vested interest groups and the growing public demand for political participation, will also pose a challenge to political integration and social stability. Thirdly, three decades of changes in the relations between the state and the society has caused a remarkable growth of social forces. Although the social forces do vitalize the society and highlight independent personality, yet they make national decision-making much more complex. To avoid major strategic mistakes, the government has to strike a balance between making rational decisions and responding to

nationalist sentiments. Therefore, it is reasonable to say that China, if compared with any other country in the world, is facing no less complex problems and severe challenges in its internal governance.

On the whole, China will experience in the next decade a huge increase in its comprehensive strength, and may become the world's second largest country, only behind US, in comprehensive strength by the end of 2020. Nevertheless, the optimistic prospect may be darkened or even dimmed if the country fails to control conflicts and solve problems through system adjustments and social reforms.

The coexistence of power and weaknesses discloses the twofold nature of China in a considerable period of time. Although positioned as the largest developing country, China nonetheless shares wide common interests with developed countries in practical affairs. Experiencing a rapid economic growth and accumulation of material wealth, China faces unprecedented internal challenges and international risks. Shouldering the responsibility to build a harmonious society where the public demand of justice and equality are fulfilled, China has to ease foreign doubts towards its strategy and take the responsibility to maintain a peaceful and stable international environment. These facts determine the twofold nature of China's diplomacy. Strategically, to concentrate on internal issues, China needs to keep a low profile and maintain an inward-looking defensive posture. Tactically, China should actively defend its broadening national interests. In the overall perspective, China should expand its horizon to the international level, stick to openness, cooperation, mutual benefit, and a win-win strategy, treat different issues

with different approaches, and be determined to safeguard its core interests and strategic space.

Restructuring of the Relations Between China and the World

Since the reform and opening-up the relations between China and the world have undergone historic changes. The transformation of the world system runs parallel to the rise of China and the two processes are continuously influencing each other. The peaceful transformation of world system offers an important and strategic opportunity for the rise of China. The increase in China's comprehensive strength is inseparable from a generally stable global system. Meanwhile, China has been pushing the world system towards change and has become an important participant and collaborator in the existing system. Despite the fast development of China in the next ten years, the country, big but not so strong, is unlikely to bring fundamental changes to its strategic situation and will remain in the starting phase of its rise. Likewise, although the transfer of world power will be accelerated in the coming decade, the sense of uncertainty and confusion will not cease, be-

cause of the over-lapping impacts from actors with diversified political identities, such as states, institutions, and non-state actors.¹⁷ As a result, China will face a much more complex external environment in the next ten years due to the readjustment of the relations between China and the world, and an increase in strategic misgivings and gaps in understanding.

From China's perspective, the rapid rise of China and its entry into international arena complicates the mindsets of the Chinese people. For one thing, the rise of China today is a major success after over a century of twists and turns. It proves that the traditionally agrarian country is able to adapt to the brand new industrial civilization. Thus, it is unsurprising that the Chinese people are more confident than ever to realize the revival of the nation. For another thing, the rapid development of industrialization brings about unprecedented problems and challenges, such as imbalanced interests, social contradictions, and confused beliefs. Therefore, during the transition period the people are anxious about the future. The anxiety is often amplified in contrast with the Western developed countries. The understandings of outside world also reflect the complex mindset of the Chinese people. Staying at the bottom of international system for decades, China wishes to be recognized through self-efforts. But at the same time, China is afraid of getting conceited by those with ulterior motives or be forced to take excessive responsibilities. That is why China is sometimes oversensitive to external blames, or is wary of praises. When an issue is related to world peace and human well-being, China always considers it morally and takes an idealistic stand. But when it comes to concrete actions, the country would resort to

pragmatism, take evasive actions, and put self-preservation first. The combination of confidence and inferiority, of power complex and weak mindset makes China's international actions inconsistent and swaying, and thus adding the difficulty for the outside world to know China.

Similarly, the outside world has a mixed feeling toward the rise of China, which, in combination with China's gigantic land mass, huge population, and three decades of rapid economic growth, is restructuring the group mindset of the outside world towards China. People from other countries respect the fact of China's rise, but find it difficult to accept the unique approach taken by China. They wish China could take more international responsibilities, but doubt the expansion of its influence and the use of its power. They regard China as a key member of the future world, but are reluctant to cast aside the self-centered prejudice. Under this complicated mindset, different countries have formulated diversified policies on China. For the US-led Western countries, they are extremely worried about the loss of their central position and sense of superiority against the background of rapid power transition. Thus, a mixed feeling of doubt, fear, and rejection arises among these countries. They often overreact to the rise of China, saying that China has become more arrogant and tough. Strategically, the West tries to use the stick and the carrot to check and guard against China. In non-Western countries, some emerging powers are increasingly jealous of China's outstanding status in the non-Western world. The mindset creates a new barrier in bilateral relations. The neighboring countries are painfully adjusting their attitudes towards China, who once was inferior to them,

gradually caught up with them, and eventually surpassed them. No wonder they are hesitant to embrace China's increasing power and influence. It is the same with other developing countries, which on one hand welcomes China's investment, technology, and commodities, and on the other hand fear China's strong competitive strength. Thus, China's influence sometimes becomes "the neo-colonialism."

From the above analysis, we can see that the rise of China is exerting tremendous influence over the power structure in the world as well as the mindset of China and the outside world, both of whom need time to adjust their ideologies and concrete policies so as to construct a more rational and realistic strategic framework. Conceptually, the outside world, especially the West, should break away from traditional self-centrism and moral superiority, reflect on the practices of understanding China via the modern paradigm based on Western experience, abandon the ambition and imagination of transforming China into a typical member of the Western camp, and face squarely the unique complexity displayed by China due to its multiple identities and the coexistences of several processes in the country.¹⁸ China, however, needs to nurture a healthy and rational national mindset by wiping out arrogant nationalism and the century-long tragic sentiment concerning the nation's latter-day history. The Chinese people should be convinced of the

Right: From January 17, 2011, a 60-second video promoting China's image was screened at New York Times Square for four consecutive weeks, 15 times per hour.



significance of China's achievement, recognize the daunting challenges on the way, and introduce to the world an objective and diversified China.

In consideration of concrete policies, the outside world, especially the West should change the logic of binary opposition, abandon the antagonist mind of curbing and guarding against China, and accept China as an important player in a diversified global system. They ought to take a rational view of the room for collaboration and conflicts of interests between the two sides by avoiding unrealistic expectations of China in cooperation, and separating disputes in functional areas from political principles and the dichotomy of good and evil. As for China, the growth in strength means more responsibilities. Rather than standing aloof to world affairs, China needs to actively shoulder international responsibilities in accordance with its national strength rather than regarding it as a passive way to respond to external criticism, for the action is actually a sustainable way to gain international discourse power and to improve China's ability of political mobilization. With internal affairs high on the agenda, it is of great necessity for China to strike a flexible balance between its national interests and international responsibilities and between self-development and a win-win development strategy with other countries, and in turn to push the relations between China and the world towards peace and cooperation. This is not only to safeguard the national interests of China, but also determine whether China can provide new options to solve global problems.

Notes

- ¹ For the analysis on future trends of the world structure by Chinese scholars, see Cai Tuo, "The Transformation and Shaping of the International Order," *Foreign Affairs Review*, No. 4, 2009; Chen Yugang, "The Financial Crisis: The Decline of US and a Flat Pattern of International Relations," *World Economy and Politics*, No. 5, 2009; Lin Limin, "Transformation of International System in the 21st Century," *Contemporary International Relations*, No.6, 2009; Yuan Peng, "Changes in International System and China's Strategic Choices," *Contemporary International Relations*, No. 11, 2009.
- ² See Charles Krauthammer, "The Unipolar Moment," *Foreign Affairs*, Vol. 70, No. 1, 1990/1991; Stephen G. Brooks and William C. Wohlforth, "American Primacy in Perspective," *Foreign Affairs*, Vol. 81, No. 4, Jul./Aug., 2002; William C. Wohlforth, "The Stability of a Unipolar World," *International Security*, Vol. 24, No. 1, Summer, 1999.
- ³ For example, Prof. Yuan Peng holds that the international financial crisis this time is far from an economic problem in the common sense, but a structural problem closely related to the foundation of American supremacy. Although US economy will continue to lead the world in the foreseeable future, but its economic supremacy has already been structurally weakened. See Yuan Peng, "Financial Crisis and US Economic Supremacy: Perspectives from History and Politics," *Contemporary International Relations*, No. 5, 2009.
- ⁴ For detailed analysis on the five types of countries or country blocs in non-Western world, see Jin Canrong, Liu Shiqiang, "Farewell to the Western-Cen-

trism: Reflection on the Current Status and Future Trends of the International Structure," *International Survey*, No. 2, 2010, pp. 4-6.

⁵ The White House, National Security Strategy, May, 2010, p. 22, http://www.whitehouse.gov/sites/default/files/rss_viewer/national_security_strategy.pdf.

⁶ Zhang Yeliang, "Polarized US Politics: Myth or Reality," *American Studies*, No. 3, 2008, pp.25-31.

⁷ For internal problems of Japan and EU, see Jin Canrong, Liu Shiqiang, "The Profound Changes in International Situation and Its Impact on China," *Contemporary International Relations*. No.12, 2009, P3-4.

⁸ Gu Yuanxiang, "Rise of Emerging Economies and the Changes in World Structure," *Asia and Africa Review*, No.1, 2010, P4-6.

⁹ Jin Canrong, "How to Understand International Trend," *Contemporary International Relations*, No.9, 2008, P4.

¹⁰ For the role and status of G20, see Zhong Longbiao, "Analysis of the Evolution of G20's role in Global Governance," *Contemporary International Relations*, No. 4, 2009.

¹¹ Huntington believes that the Western civilization is not the same with modern society, for the civilization was established far before modernization. The value of Western civilization lies in its uniqueness rather than its universality. See Samuel P. Huntington, "The West Unique, Not Universal," *Foreign Affairs*, Vol. 75, No. 6, Nov./Dec., 1996, pp. 28-46.

¹² Fareed Zakaria, "The Rise of Illiberal Democracy", *Foreign Affairs*, Vol. 76, No. 6, Nov./Dec., 1996, pp. 23-24.

¹³ Ma Li, Counselor at the State Council, mentions in the report named "Judg-

ment on the Changes in China's Labor Force" at the 2010 Consultation Meeting on China's Population and Development that China's current working-age people takes up 71.68% of the total population, one of the highest proportion in the world; although the dependency ratio will start rising from 2013, the years between 2010 and 2035 is still a period of demographic dividend, featuring rich labor forces, low dependency, and high saving rate. See http://www.cpirc.org.cn/news/rkxw_gn_detail.asp?id=12091.

- ¹⁴ For foreign discussions on the China Mode, see Tang Xiao, "European and American Media on the Chinese Mode and Its Implications," *Foreign Affairs Review*, No. 1, 2010.
- ¹⁵ Zhang Weiwei, *China Touches the World*, Beijing: Xinhua Publishing House, 2008: pp. 40-44.
- ¹⁶ Fang Hua, "A Summary of China's Development of Soft Power in the Recent Ten Years," *Contemporary International Relations*, No. 1, 2009, pp.57-58.
- ¹⁷ Ed: US National Intelligence Council, trans: Institute of American Studies of China Institutes of Contemporary International Relations, *Global Trends 2025: A Transformed World*, Beijing: Current Affairs Publishing House, 2009, p.8.
- ¹⁸ For analysis on China's multiple identities and multiple processes, see Yuan Peng, "Changes in International System and China's Strategic Choice," *Contemporary International Relations*, No. 11, 2009, p. 43.

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